IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE U.S. (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR).

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, investors must be either (1) QIBs (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S.; provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) not a U.S. person and that the electronic mail address that you gave us and to which this Prospectus has been delivered is not located in the U.S. (and if you are resident in a Member State of the European Economic Area, you are a qualified investor) and (2) that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers (as defined below) or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc or Trade Bank of Iraq (together, the "**Managers**") nor any person who controls any of the Managers, nor any director, officer, employee nor agent of or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request.



Republic of Iraq

U.S.$1,000,000,000

6.752 per cent. Notes due 2023

Issue Price of the Notes: 100.00 per cent.

The U.S.$1,000,000,000 6.752 per cent. Notes due 2023 (the "**Notes**") to be issued by the Republic of Iraq (the "**Issuer**" or "**Iraq**"), acting through the Ministry of Finance of Iraq (the "**Ministry of Finance**"), will mature on March 9, 2023 and, unless previously purchased and cancelled, will be redeemed at their principal amount on that date. The Notes are being offered as debt securities under an indenture expected to be dated August 9, 2017.

The Notes will bear interest at a rate of 6.752 per cent. per annum. Interest will accrue on the outstanding principal amount of the Notes from and including August 9, 2017 and will be payable semi-annually in arrears on March 9 and September 9 in each year, commencing on March 9, 2018. Withholding tax on interest paid by any person residing in Iraq to a person outside Iraq is currently set at 15%. Iraq will be obliged to pay such additional amounts on the Notes as may be necessary to ensure that the holders of the Notes receive a payment, after the withholding tax, equal to the payment which holders of the Notes would have received had no deduction or withholding for or on account of such withholding tax on interest been required, subject to certain standard exceptions set out in "*Description of the Notes—Additional Amounts*."

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see "*Plan of Distribution*" and "*Transfer Restrictions*."

The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and within the United States to "qualified institutional buyers" ("**QIBs**") only (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SEE "*RISK FACTORS*" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES STARTING ON PAGE 8.

The Notes are expected to be rated B- by Fitch Ratings Ltd. ("**Fitch**") and B- by Standard & Poor's Rating Services ("**S&P**"). The rating agencies have also issued ratings in respect of the Issuer as set out in this prospectus (the "**Prospectus**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. As of the date of this Prospectus, each of the rating agencies is established in the European Union (the "**EU**") and is registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). As such, each of the rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the

CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes offered and sold in reliance on Regulation S (the "**Unrestricted Notes**") are each represented by beneficial interests in an unrestricted global certificate (the "**Unrestricted Global Certificates**"), in registered form without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about August 9, 2017 (the "**Closing Date**") with the common depositary for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The Notes offered and sold in reliance on Rule 144A (the "**Restricted Notes**") are each represented by beneficial interests in one or more restricted global certificates (the "**Restricted Global Certificates**," and together with the Unrestricted Global Certificate, the "**Global Certificates**"), in registered form without interest coupons attached, which will be deposited on or about the Closing Date with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). It is expected that the Notes will be issued on the Closing Date. Interests in the Restricted Global Certificate will be subject to certain restrictions on transfer. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, securities in certificated form will not be issued in exchange for beneficial interests in the Global Certificates.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish law and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the EU ("**Member State**"). The Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**Exchange**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its Main Securities Market (the "**Market**"). The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

Joint Lead Managers

Citigroup **Deutsche Bank** **J.P. Morgan**

Co-Manager

Trade Bank of Iraq

Prospectus Dated August 8, 2017

IMPORTANT NOTICES

Iraq accepts responsibility for the information contained in this Prospectus. To the best of Iraq's knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. To the best of the knowledge and belief of Iraq, the information contained in this Prospectus is true and accurate in every material respect and is not misleading in any material respect and this Prospectus, insofar as it concerns such matters, does not omit to state any material fact necessary to make such information not misleading. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to Iraq are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

No person has been authorized to give any information or to make any representation other than as contained in this Prospectus in connection with the offering of the Notes, and, if given or made, such information or representation must not be relied upon as having been authorized by Iraq or the Joint Lead Managers (as defined in "*Plan of Distribution*") or Trade Bank of Iraq (the "**Co-Manager**," and together with the Joint Lead Managers, the "**Managers**"). With certain limited exceptions, none of the Managers or any of their respective affiliates makes any representation as to the information contained in this Prospectus. Neither the delivery of this Prospectus nor any offer or sale of the Notes made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Iraq since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic, political or otherwise), general affairs or prospects of Iraq since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the offering is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of Iraq during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this Prospectus constitute an offer or an invitation to subscribe for or purchase any Notes and it should not be considered as a recommendation by Iraq or any Manager that any recipient of this Prospectus should subscribe for or purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law.

Persons into whose possession this Prospectus comes are required by Iraq and the Managers to inform themselves about and to observe any such restrictions. None of Iraq or the Managers make any representation to any recipient of this Prospectus regarding the legality of an investment in the Notes by such recipient under applicable investment or similar laws. Each investor should consult with its own advisors as to the legal, tax, business, financial and related aspects of its purchase of the Notes. For a description of certain restrictions on offers, sales and deliveries of Notes, see "*Plan of Distribution*" and "*Transfer Restrictions*."

Every prospective investor must determine the suitability of an investment in the Notes in the light of its particular circumstances. Accordingly, each prospective investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolios;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for currency, economic, interest rate and other factors that may affect its investments and ability to bear the applicable risks.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell the Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase the Notes must be obtained prior to the deadline specified for any such consent or approval. Iraq and the Managers are not responsible for compliance with these legal requirements.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is a criminal offense in the United States.

The Managers have not separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted, by the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by Iraq in connection with the Notes or their distribution. Neither this Prospectus nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by Iraq or any of the Managers that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of Iraq. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of Iraq, or any of the Managers to any person to subscribe for or to purchase any Notes.

IN CONNECTION WITH THE ISSUE OF THE NOTES, DEUTSCHE BANK AG, LONDON BRANCH (THE "STABILIZING MANAGER") (OR ANY PERSON ACTING FOR THE STABILIZING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE INITIAL ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The investment activities of certain investors are subject to legal investment laws and regulation, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

This Prospectus has been prepared by Iraq for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States in reliance on Rule 144A and the admission of the Notes to the Official List and to trading on the Market. Iraq and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Managers or their respective U.S. broker-dealer affiliates. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorized and any disclosure without the prior written consent of Iraq of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

To the extent that this Prospectus is addressed to and sent to persons or institutions in the Republic of Iraq, it shall not, and is not intended to, constitute conducting business or banking activities within the Republic of Iraq, and none of the Managers or their respective directors, officers, employees or representatives or affiliates shall be considered as conducting business or

banking activities within the Republic of Iraq as a result of the issue of this Prospectus or the offering or any activities conducted as set out in this Prospectus, whether under the Iraq Banking Law No. 94 of 2004 or any other laws or regulations applicable in the Republic of Iraq.

NOTICE TO UK RESIDENTS

This issue and distribution of this Prospectus is restricted by law. This Prospectus is not being distributed by, nor has it been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**") by, a person authorized under FSMA. This Prospectus is for distribution only to, and is only directed at, persons who: (i) are outside the United Kingdom; (ii) have professional experience in matters relating to investments (being investment professionals falling within Article 19(5) of the FSMA Financial Promotion Order 2005, as amended (the "**Financial Promotion Order**"));or (iii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). Accordingly, by accepting delivery of this Prospectus, the recipient warrants and acknowledges that it is a relevant person. The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. No part of this Prospectus should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without Iraq's prior written consent.

NOTICE TO EUROPEAN ECONOMIC AREA RESIDENTS

In any European Economic Area Member State (each, a "**Member State**"), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that any offer of Notes in any Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make any offer within the European Economic Area of Notes which are the subject of the offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Managers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

For the purposes of this provision, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU).

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**CMA**").

The CMA does not make any representations as to the accuracy or completeness of this Prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective investors should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Prospectus, he or she should consult an authorized financial adviser.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain ("**Bahrain**"), Notes issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain (the "**CBB**") in Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in another currency or such other amount as the CBB may determine.

This Prospectus does not constitute an offer of securities in Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not

been and will not be registered as a prospectus with the CBB. Accordingly, no Notes may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the Notes to be offered for investment, whether in or outside Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Prospectus. No offer of Notes will be made to the public in Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

Any Notes will not be offered, sold or delivered at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Financial Markets Authority, the Qatar Central Bank, the Qatar Stock Exchange or the Qatar Financial Centre Regulatory Authority. The Notes are not and will not be traded on the Qatar Stock Exchange.

NOTICE TO RESIDENTS OF THE STATE OF KUWAIT

THE NOTES HAVE NOT BEEN AUTHORIZED OR LICENSED FOR OFFERING, MARKETING OR SALE IN THE STATE OF KUWAIT.

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "**Kuwait Capital Market Authority**") pursuant to Law No. 7 of 2010, its Executive Regulations and the various Resolutions, Instructions and Announcements issued pursuant thereto, or in connection therewith, have been given in relation to the marketing of, and sale of, the Notes, the Notes may not be offered for sale, nor sold, in Kuwait. No such approvals have been received or applied for in respect of the Notes. Neither this Prospectus nor any of the information contained herein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

NOTICE TO RESIDENTS OF THE UNITED ARAB EMIRATES (EXCLUDING THE DUBAI INTERNATIONAL FINANCIAL CENTER)

Each Manager has represented and agreed, and each future manager appointed will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates (the "**UAE**") other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

NOTICE TO RESIDENTS OF THE DUBAI INTERNATIONAL FINANCIAL CENTER

Each Manager has represented and agreed, and each future manager appointed will be required to represent and agree, that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre (the "**DIFC**") unless such offer is:

- an "Exempt Offer" in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (the "**DFSA**"); and

- made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Iraq is a sovereign state, and nearly all of the assets of Iraq are located outside of the United States. There is a risk that, notwithstanding Iraq's agreement to waive the defense of sovereign immunity in certain circumstances in connection with the Notes, a claimant will not be able to enforce a foreign court judgment against Iraq in relation to the Notes (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without Iraq having specifically consented to such enforcement at the time when the enforcement is sought. In addition, state-owned assets are statutorily exempt from court enforcement procedures within Iraq. Iraq has not waived any immunity (a) from attachment prior to judgment and attachment in aid of execution; (b) with respect to claims or actions brought against it under U.S. federal securities laws or any state securities laws; and (c) in respect of present or future property: (i) used by a diplomatic or consular mission of Iraq; (ii) of a military character and under control of a military authority or defense agency; (iii) dedicated to a public or governmental use (as distinct from property that is for the time being in use for a commercial activity within the meaning of the Foreign Sovereign Immunities Act of 1976, as amended, of the U.S. (the "**Foreign Sovereign Immunity Act**")); or (iv) that is an "antiquity" or "heritage material," as such terms are defined under Law No. 55 of 2002 for the Antiquities and Heritage of Iraq. For the avoidance of doubt, it is understood that the waiver of immunity relates only to Iraq and not to any agency or instrumentality of Iraq, including the CBI.

It may not be possible to effect service of process against Iraq in courts outside Iraq or in a jurisdiction to which Iraq has not explicitly submitted. In addition, courts in Iraq will not enforce a judgment obtained in a foreign court unless such enforcement is provided for by a treaty ratified by Iraq and such foreign country provides for reciprocal enforcement of judgments, or if such country is named in regulations issued by Iraq, provided that in any event, enforcement is subject to a requirement of reciprocity (that is, judgments issued by the Iraqi courts must be enforceable by the courts of the relevant foreign country, whether through *exequatur* orders or other similar procedures) and to stringent requirements of Iraqi law, which require that: (i) a proper notice is issued to the defendant in the lawsuit pursuant to which the foreign judgment is obtained, (ii) the foreign court is competent to assume jurisdiction over the matter according to certain parameters determined by Iraqi law, (iii) the foreign judgment is a monetary judgment, (iv) the enforceability of the foreign judgment will be compliant with public order in Iraq, and (v) the judgment is final and will be enforceable in the jurisdiction where it is issued. Iraq does not have a treaty (or arrangement) with the United States regarding enforcement of foreign judgments and the United States is not named in regulations issued by Iraq in connection with the enforcement of foreign judgments. See also "*Risk Factors—Risk Factors Relating to an Investment in the Notes—It may be difficult to enforce judgments obtained in foreign jurisdictions based on Iraq's sovereign immunity*."

PRESENTATION OF CERTAIN INFORMATION

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the Central Statistical Organization of the Ministry of Planning of Iraq ("**CSO**"), the Ministry of Finance, the Central Bank of Iraq ("**CBI**"), the Ministry of Oil and other official federal government of Iraq (the "**Federal Government**") sources. Certain statistics are preliminary, estimates or unaudited and are identified as such where presented. In particular, this is the case of certain tables in this Prospectus which are referenced as originating from "Iraqi authorities' estimates." The development of statistical information relating to Iraq is an ongoing process, and revised figures and estimates are produced on a continuous basis and may change further in the future. For this reason, certain data presented herein may differ from data made public previously, and that may be received in the future.

The region of Kurdistan may or may not be included in certain statistical data presented in this Prospectus and, where included, such data may be reflected on the basis of direct data collection, data published by the Kurdistan Regional government ("**KRG**") or Federal Government assumptions. In particular, except as described below, imports, exports and other relevant flows into and out of the Kurdistan region are not reflected in Federal Government balance of payments and trade statistics.

The Budget Laws for the periods discussed in this Prospectus provide for the KRG to deliver crude oil to Oil Marketing Company (Public Company) (also known as the State Oil Marketing Organization) ("**SOMO**") for export for the account of the Federal Government, in exchange for a share of Federal Government expenditures (after certain deductions, primarily for sovereign expenses). For several years, the KRG has exported crude oil independently, and has delivered volumes to SOMO that are substantially lower than the amounts provided in the Budget Laws (and has stopped all deliveries to SOMO for significant periods, including in 2016 and 2017). Figures in this Prospectus for oil production and exports only include production and exports from Kurdistan to the extent exported by SOMO, except figures presented as part of GDP data. Similarly, figures for actual Federal Government revenues for the year ended December 31, 2013, 2014, 2015, 2016 and for the three months ended March 31 2017, only reflect oil revenues received by the Federal Government (and exclude oil revenues received by the KRG through independent sales). In addition, information relating to the Federal Budget and the Budget Laws (as opposed to figures for actual revenue in 2013-2017) reflect the volumes of crude oil that the KRG is required to deliver to SOMO pursuant to the Budget Laws, without regard to whether those volumes are actually delivered. The Budget Laws provide that, if the volumes delivered by the KRG to SOMO are lower than required, there will be a corresponding reduction in the budget allocations to the KRG.

Official statistics also likely underreport imports from areas under the control of the Federal Government by a significant margin, as imports at entry points into Iraq are not systematically measured and because there are often delays in reporting imports to the central authorities in Baghdad.

GDP data used in this Prospectus has been prepared on the basis of data compiled by the CSO and further revised as set forth below. For any given year, the CSO prepares GDP data first on the basis of quarterly estimates (which is still the case for GDP data for 2016), and then refines them on the basis of annual estimates (which is still the case for GDP data for 2015), before becoming final (which is the case for 2014 and previous years). As from 2014, CSO data does not include output from territories that were or are (as the case may be) under the control of the so-called Islamic State of Iraq and Syria ("**Daesh**") and does not include all oil production in Kurdistan. Pursuant to discussions held in connection with the SBA, the Iraqi authorities have prepared revised GDP figures that incorporate such excluded output data. In addition, the Iraqi authorities introduced adjustments to output from the finance, insurance and construction sectors.

While final accounts related to the Federal Budget are required by law to be subject, among other things, to a process of auditing, approval by the Council of Ministers, approval by the Council of Representatives, and publication in the Official Gazette, the Council of Representatives has not approved the final accounts since 2013. Federal Government actual revenues and expenditures as presented in this Prospectus for those relevant years are based on data compiled and reviewed by the Iraqi authorities.

All statistical information provided in this Prospectus may differ from what is produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. See "*Risk Factors—Risk Factors Relating to Iraq—The statistical information published by Iraq may differ from that produced by other sources and may be unreliable*."

The International Monetary Fund ("**IMF**") includes within its measure of public debt certain pre-2003 claims against Iraq that have not been renegotiated, Federal Government arrears and certain contingent liabilities arising under Federal Government guarantees (see "*Public Debt and Related Matters—Government Guarantees*"), which results in figures that are higher than those reported under "*Public Debt and Related Matters*" and elsewhere in this Prospectus.

Unless otherwise stated, all annual information, including Federal Budget information, is based on calendar years, and interim statistical information has not been annualized. Data included in this Prospectus has been subject to rounding adjustments; accordingly, data shown for the same item of information may vary, and total figures may not be arithmetical sums of their components.

Except as otherwise indicated, figures for oil export revenues are presented on an accrual basis, recognized generally upon the delivery of the relevant volumes.

All references in this Prospectus to interest accruing from a specified date or to a specified date are to interest accruing from and including the first specified date to, but excluding, the second specified date.

Except as otherwise provided, translations of amounts from one currency into another currency are solely for the convenience of the reader. All conversions between U.S.$ and IQD have been done at the average official auction price for the relevant period, unless otherwise stated. No representation is made that amounts referred to herein could have been, or could be, converted into another currency at any particular exchange rate or at all.

In 2009, Iraq subscribed to the General Data Dissemination System (the "**GDDS**") of the IMF, which is designed to improve the quality of information of subscribing member countries, provide a framework for evaluating needs for data improvement and setting priorities in this respect, and guide member countries in the dissemination to the public of comprehensive, timely, accessible and reliable economic, financial and socio-demographic statistics.

Definitions and Terminology

In this Prospectus:

- "**Banking Law**" refers to Banking Law of 2004 of Iraq;
- "**BGC**" refers to the Basrah Gas Company;
- "**BOSA**" refers to the Iraqi Federal Board of Supreme Audit;
- "**BPM6**" refers to the sixth edition of the IMF Manual;
- "**CBI**" refers to the Central Bank of Iraq;
- "**CBL**" refers to the Central Bank Law, CPA Order No. 56;
- "**Clearing Systems**" refers to DTC, Euroclear and Clearstream, Luxembourg;
- "**Closing Date**" refers to August 9, 2017;
- "**CMC**" refers to the Communication and Media Commission of Iraq;
- "**CoI**" refers to the Iraqi Commission on Integrity;
- "**Co-Manager**" refers to Trade Bank of Iraq;
- "**Commission**" refers to the Iraq Securities Commission;
- "**Council of Ministers**" refers to the council of ministers of Iraq composed of the Prime Minister and his cabinet;
- "**Council of Representatives**" refers to the parliament of Iraq;
- "**CPA**" refers to the Coalition Provisional Authority;
- "**CPI**" refers to the consumer price index;
- "**CRA Regulation**" refers to EU Regulation No 1060/2009, as amended;
- "**CSD**" refers to the Central Securities Depository of Iraq;
- "**CSO**" refers to the Central Statistical Organization of the Ministry of Planning of Iraq;
- "**CSSP**" refers to the Common Seawater Supply Project;
- "**Custodian**" refers to the custodian for DTC;
- "**Customs Tariff Law**" refers to Customs Law No. 22 of 2010 of Iraq, as amended;
- "**Daesh**" refers to the so-called Islamic State of Iraq and Syria, also referred to as ISIS;
- "**Draft PFML**" refers to the draft law on Public Financial Management;

- "**DTC**" refers to The Depositary Trust Company;
- "**DTC Rules**" refers to the rules, regulations and procedures creating and affecting DTC and its operations;
- "**EAC**" refer to the Economic Affairs Committee of the Council of Ministers;
- "**EITI**" refers to Extractive Industries Transparency Initiative;
- "**Environment Protection Council**" refers to the Environment Protection and Improvement Council of Iraq;
- "**Environment Protection Law**" refers to Law No. 27 of 2009 of Iraq;
- "**ESMA**" refers to European Securities and Markets Authority;
- "**Exchange**" refers to the Irish Stock Exchange;
- "**External debt**" refers to public debt issued outside Iraq in currencies other than the Iraqi dinar;
- "**FDI**" refers to foreign direct investment;
- "**Federal Budget**" refers to the general federal budget of the Republic of Iraq;
- "**Federal Constitution**" refers to the federal constitution of Iraq of 2005;
- "**Federal Government**" refers to the federal government of Iraq;
- "**Financial Management Law**" refers to Annex A to CPA Order No. 95 of 2004, as amended;
- "**Financial Promotion Order**" refers to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended;
- "**Fitch**" refers to Fitch Ratings Ltd.;
- "**Foreign Sovereign Immunities Act**" refers to the Foreign Sovereign Immunities Act of 1976, as amended, of the United States;
- "**FRBNY**" refers to the Federal Reserve Bank of New York;
- "**FSMA**" refers to the Financial Services and Markets Act 2000;
- "**GCT**" refers to the Iraqi General Commission for Taxes;
- "**GDP**" refers to gross domestic product, a measure of the total value of final products and services produced in a country;
- "**Global Certificates**" refers to Restricted Global Certificates and Unrestricted Global Certificates together;
- "**IDP**" refers to internally displaced persons;
- "**ILSM**" refers to the Interim Law on Securities Markets CPA Order No. 74, as amended;
- "**IMF**" refers to the International Monetary Fund;
- "**IMF Manual**" refers to the Balance of Payments and International Investment Position Manual, as updated;
- "**Income Tax Law**" refers to Iraqi Income Tax Law No. 113 of 1982, as amended;
- "**Indicative targets**" refers to quantitative indicators to assess Iraq's progress in meeting the objectives of the SBA;
- "**INES**" refers to Integrated National Energy Strategy;
- "**Investment Law**" refers to Investment Law No. 13 of 2006 of Iraq, as amended;
- "**IOCs**" refers to international oil companies;
- "**Iraq**" or "**Issuer**" refers to the Republic of Iraq;
- "**Iraqi dinar**" or "**IQD**" refers to the lawful currency of Iraq;
- "**IRS**" refers to the U.S. Internal Revenue Service;
- "**Issue Date**" means August 9, 2017;
- "**ISX**" refers to the Iraq Stock Exchange;
- "**Joint Lead Manager**" refers to each of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc;
- "**KRG**" refers to the Kurdistan Regional Government;
- "**Law No. 101**" refers to the Law on the Organization of the Ministry of Oil (Law No. 101 of 1976) in Iraq;
- "**Market**" refers to the Main Securities Market of the Irish Stock Exchange;
- "**Markets in Financial Instruments Directive**" refers to Directive 2004/39/EC;
- "**Ministry of Finance**" refers to the Ministry of Finance of Iraq;
- "**mmscf/d**" refers to million standard cubic feet per day;
- "**MoE**" refers to the Ministry of Electricity of Iraq;
- "**MoF**" refers to the Minister of Finance of Iraq;
- "**MoP**" refers to the Minister of Planning of Iraq;
- "**NESAP**" refers to the National Environmental Strategy and Action Plan in Iraq for the years 2013 – 2017;
- "**New AML Law**" refers to Iraqi Law No. 39 of 2015 on Combating Money Laundering and Terrorism Financing;

- "**NIC**" refers to the National Investment Commission, established under the Investment Law;
- "**Notes**" refers to the U.S.$1,000,000,000 6.752 per cent. Notes due 2023;
- "**OAPEC**" refers to the Organization of Arab Petroleum Exporting Countries;
- "**Official List**" refers to the official list of the Irish Stock Exchange;
- "**OIC**" refers to the Organization of Islamic Cooperation;
- "**OID**" means original issue discount;
- "**OPC**" refers to Oil Pipeline Company;
- "**OPDC**" refers to Oil Products Distribution Company;
- "**OPEC**" refers to the Organization of the Petroleum Exporting Countries;
- "**Order 95**" refers to CPA Order No. 95 of 2004 (including Annex A and Annex B thereto, as amended);
- "**Performance Criteria**" refers to quantitative performance criteria, which are specific and measurable conditions that have to be met to complete a review under the SBA;
- "**PKK**" refers to the Turkish Kurdistan Workers' Party;
- "**Prime Minister**" refers to the prime minister of Iraq;
- "**Prior Actions**" refers to commitments in the form of prior actions that Iraq agreed to implement before the IMF's Executive Board approved the SBA or subsequent reviews;
- "**Prospectus**" refers to this prospectus;
- "**Prospectus Directive**" refers to Directive 2003/71/EC, as amended;
- "**Public Debt Law**" refers to Annex B to CPA Order No. 95 of 2004, as amended;
- "**QIBs**" refers to qualified institutional buyers within the United States;
- "**Real Estate Law**" refers to the Real Estate Law No. 162 of 1959 of Iraq, as amended;
- "**Reconstruction Levy Law**" refers to CPA Order No. 38, as amended;
- "**Regulation S**" refers to Regulation S under the U.S. Securities Act of 1933, as amended;
- "**Restricted Global Certificates**" refers to Restricted Notes each represented by beneficial interests in one or more restricted global certificates;
- "**Restricted Notes**" refers to Notes sold in reliance on Rule 144A;
- "**RFI**" refers to the IMF's Rapid Financing Instrument;
- "**Rule 144A**" refers to Rule 144A under the Securities Act;
- "**SBA**" refers to the IMF's Stand-by Arrangement;
- "**SDR**" refers to special drawing rights in relation to the IMF, based on the basket value of five currencies;
- "**Securities Act**" refers to the U.S. Securities Act of 1933, as amended;
- "**SMEs**" refers to small and medium-sized enterprises;
- "**SMP**" refers to the IMF's Staff-Monitored Program;
- "**SOEs**" refers to state-owned enterprises;
- "**SOMO**" refers to the Oil Marketing Company (Public Company), a company owned by the Ministry of Oil, which is also commonly known as State Oil Marketing Organization;
- "**Strategic Plan**" refers to the 2014-2018 program introduced in September 2014 by the Council of Ministers;
- "**Structural Benchmarks**" refers to non-quantifiable structural benchmarks that are intended as markers to assess program implementation during a review;
- "**Supplementary Budget**" refers to an amendment to the Federal Budget;
- "**S&P**" refers to Standard & Poor's Rating Services;
- "**TBI**" refers to the Trade Bank of Iraq;
- "**Trade Liberalization Law**" refers to CPA Order No. 54 —Trade Liberalization Policy, as amended;
- "**UN**" refers to the United Nations;
- "**UNAMI Report**" refers to the April 2017 report published by the Human Rights Office of the UN Assistance Mission for Iraq;
- "**UNDP**" refers to the United Nations Development Program;
- "**UNHCR**" refers to the office of the UN High Commissioner for Refugees;
- "**Unrestricted Global Certificates**" refers to the Unrestricted Notes each represented by beneficial interests in an unrestricted global offering;
- "**Unrestricted Notes**" refers to Notes offered and sold in reliance on Regulation S;
- "**USAID**" refers to the United States Agency for International Development;

- "**World Bank**" refers to the World Bank Group or any institution member thereof, as the case may be;
- "**WTO**" refers to the World Trade Organization;
- "**2017 Federal Budget**" refers to the Federal Budget Law adopted on January 2, 2017 and published in the Official Gazette on January 9, 2017; and
- "**2017 Supplementary Budget**" refers to the 2017 Supplementary Budget approved by the Council of Representatives on July 24, 2017.

FORWARD LOOKING STATEMENTS

This Prospectus includes forward looking statements. All statements other than statements of historical fact included in this Prospectus regarding, among other things, Iraq's economy, fiscal condition, politics, debt, national security or prospects may constitute forward looking statements. In addition, forward looking statements generally can be identified by the use of forward looking terminology such as "may," "will," "expect," "project," "intend," "estimate," "anticipate," "believe," "continue," "could," "should," "would" or the like. Although Iraq believes that expectations reflected in its forward looking statements are reasonable as of the date of this Prospectus, there can be no assurance that such expectations will prove to have been correct. Iraq undertakes no obligation to update the forward looking statements contained in this Prospectus or any other forward looking statement it may make.

For Iraq, in addition to the factors described in this Prospectus, including, but not limited to, those discussed under "*Risk Factors*," the following factors, among others, could cause future conditions to differ materially from those expressed in any forward looking statements made herein:

- adverse external factors, such as global or regional economic slowdowns that may affect Iraq, higher international interest rates, lower foreign direct investment ("**FDI**"), reduced demand for Iraq's exports or decreases in oil and gas prices, which could each adversely affect Iraq's economy;

- the ability of Iraq to successfully eliminate violence in the areas of the country sympathetic to, or which continue to be under the control of, Daesh;

- decisions of Iraq's creditors regarding the provision of new debt or the rescheduling of existing debt and decisions of international financial institutions, such as the IMF, the World Bank, and the Paris Club, regarding the terms of their financial assistance to Iraq and the funding of new or existing projects in Iraq, and accordingly Iraq's liquidity, gross public debt levels, and the net cash flow to or from such international organizations over the life of the Notes;

- the availability of financing on reasonable terms in international financial markets;

- Iraq's ability to expand the non-oil sectors of its economy, develop its infrastructure, combat corruption and bureaucratic inefficiencies, and successfully reform its public and banking sectors;

- regional tensions in and with neighboring countries that can impede the complete elimination of Daesh in Iraq, increase the number of displaced persons and impact the export or price of oil;

- political and electoral factors that could threaten the stability and unity of the country, ignite religious and ethnic violence, undermine political and socio-economic developments, impede permanent or lasting settlements on the export of oil with KRG and negatively impact the pace of reforms and economic growth;

- adverse local and regional factors, such as recession, high domestic inflation, high domestic interest rates, exchange rate volatility, oil and gas supply constraints, difficulties in borrowing on the domestic market, trade and political disputes between Iraq and its trading partners and neighbors, acts of terrorism, a deterioration in national security, political uncertainty or lack of political consensus;

- political factors in Iraq, which may affect, *inter alia*, the timing and structure of economic reforms in Iraq, the reduction of Iraq's budget deficit, the implementation of anti-corruption reforms, and the climate for FDI;

- Iraq's ability to continue importing refined oil products, food and capital goods at sustainable prices or on attractive terms; and

- Iraq's ability to exploit its natural resources, including natural gas, in a cost-effective manner with minimal impact on the environment and to adequately address its infrastructure inefficiencies.

EXCHANGE RATES

The following tables set forth, for the periods indicated, the exchange rate history of the Iraqi dinar relative to the U.S. dollar.

Iraqi Dinar to U.S. Dollar
Exchange Rate History

Year	Average U.S.$ auction price[(1)]	Average U.S.$ market price	High U.S.$ market price	Low U.S.$ market price	Period End U.S.$ market price
2012	1,166	1,233	1,285	1,194	1,225
2013	1,166	1,232	1,292	1,204	1,220
2014	1,166	1,214	1,223	1,197	1,217
2015	1,167	1,247	1,379	1,207	1,224
2016	1,182	1,275	1,310	1,224	1,299
2017 (through June 30, 2017)	1,184	1,261	1,304	1,242	1,244

Month	Average U.S.$ auction price[(1)]	Average U.S.$ market price	High U.S.$ market price	Low U.S.$ market price	Period End U.S.$ market price
January 2017	1,184	1,292	1,304	1,270	1,274
February 2017	1,184	1,272	1,285	1,252	1,252
March 2017	1,184	1,254	1,264	1,250	1,255
April 2017	1,184	1,250	1,253	1,248	1,251
May 2017	1,184	1,250	1,254	1,242	1,242
June 2017	1,184	1,246	1,250	1,242	1,244
July 2017	1,184	1,258	1,264	1,244	1,257
August 2017 (through August 3, 2017)	1,184	1,257	1,257	1,257	1,257

Source: CBI.

(1) Auction price is expressed exclusive of commissions.

As of August 3, 2017, the exchange rate published by the CBI was IQD 1,184 = U.S.$1.00 on the basis of the auction price.

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OVERVIEW

The following is an overview of certain information contained elsewhere in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set forth in "Risk Factors" below prior to making an investment decision. Capitalized terms not otherwise defined in this Overview have the same meaning as elsewhere in this Prospectus. See "Description of the Republic of Iraq," "The Economy," "Foreign Trade and Balance of Payments," "Public Finance," "Monetary System," and "Public Debt and Related Matters," amongst others, for a more detailed description of the Issuer.

Overview of the Republic of Iraq

Often referred to as the cradle of civilization owing to its rich cultural history, Iraq is a federal republic with a population of approximately 38 million as of 2016. Iraq has an area of approximately 435,052 square kilometers, bordered to the west by Syria and Jordan, to the south by Saudi Arabia and Kuwait, to the east by Iran, and to the north by Turkey. Iraq also has access to maritime transportation through the Arabian Gulf. The Tigris and Euphrates rivers run through the center of Iraq, flowing from the northwest to the southeast, and Iraq's major cities lie on their banks. Iraq is organized into 18 governorates, three of which – Erbil, Dohouk and Sulaymaniya (which were more recently joined by the city of Halabja) – have joined together to constitute the region of Kurdistan. Iraq's considerable natural resources include petroleum, natural gas, phosphates and sulfur.

Iraq is a major exporter of crude oil, with crude oil reserves of approximately 153 billion barrels as of February 2017. It also has substantial reserves of natural gas, which it is only beginning to exploit. In 2016, Iraq exported an average of 3.3 million barrels per day of crude oil through SOMO to markets around the world (this figure excludes exports by the KRG). Oil exports account for substantially all of Iraq's export revenues.

Iraq is in the early phase of recovery from more than 30 years of conflicts and economic sanctions imposed on Iraq during the presidency of Saddam Hussein. Since 2003, the country has made considerable progress in regaining control over its own destiny and establishing the institutions of parliamentary democracy. In 2005, the country held its first legislative elections, and, in the same year, the federal constitution of Iraq of 2005 (the "**Federal Constitution**") was approved in a national referendum, garnering the support of 79% of voters. Iraq has subsequently held democratic elections in 2010 and 2014. The current Council of Representatives, Iraq's parliament, elected Fuad Masum as President in July 2014, who in turn nominated Dr. Haider al-Abadi as Prime Minister. Dr. al-Abadi's government and program were approved by the Council of Representatives in September 2014. The next parliamentary elections are scheduled to take place in April 2018.

Iraq has a federal system of government. The Federal Constitution allocates power between the Federal Government and the regional and governorate authorities. In recognition of the considerable diversity of the nation, the Federal Constitution officially recognizes Iraq as a country of multiple nationalities, religions and sects. The Federal Government is organized into legislative, executive and judicial branches.

The Federal Government has adopted a number of ambitious programs designed to foster economic development, particularly in the private sector, as well as diversifying the oil-based economy. The realization of the Federal Government's objectives has been challenging as a result of two factors. First, revenues have been significantly impacted by the sharp decline in international oil prices that began in late 2014 and has been continuing since then, resulting in a budgeted deficit of IQD 25.0 trillion under the 2017 Supplementary Budget (representing about 23.4% of the total budgeted expenditures for 2017). Second, Iraq has been leading a broad military campaign against Daesh after it occupied significant territory in the northern and western part of Iraq in mid-2014 causing substantial damage to lives, property and important infrastructure. The main oil fields in the south have not been affected by Daesh's actions, and the Federal Government is committed to normalizing the security situation in the rest of country, having secured significant advances in a number of major population centers.

The Economy

With a nominal gross domestic product of IQD 202.7 trillion (U.S.$171.7 billion) in 2016, Iraq is one of the largest economies in the Arab Middle East. The Iraqi economy is dominated by its oil sector, which represented 33.8% of gross domestic product ("**GDP**") in 2016 in nominal terms and generated approximately 99% of Iraq's export revenues during that year (calculated on a cash basis). Iraq's oil exports have recovered significantly from post-2003 lows, averaging 3.3 million barrels per day exported through SOMO in 2016 compared to 1.9 million

barrels per day in 2010. Under Iraqi law, export revenues from the sale of oil and gas must be deposited in an oil proceeds receipt account with the FRBNY, which is subject to public audit. In an effort to promote the transparency of this crucial sector, Iraq has been a fully compliant member of the Extractive Industries Transparency Initiative ("**EITI**") since 2012, and publishes monthly data on crude oil production, average prices and revenues, exports and domestic consumption.

While the economy suffered considerable turmoil after 2003, it has registered recent successes. These successes are due principally to the relatively high oil prices in the period ending in mid-2014, and the increases in oil production and exports. Real GDP grew by over 10% in each of 2011, 2012 and 2016, and the country enjoyed significant Federal Budget and current account surpluses for most years between 2010 and 2014. Foreign reserves declined from U.S.$84.1 billion as of December 31, 2013 to U.S.$44.7 billion as of December 31, 2016 before rising slightly to U.S.$46.5 billion as of June 30, 2017. Gross debt levels were at 35.1% of nominal GDP as of December 31, 2016. (This debt percentage excludes pre-2003 claims against Iraq that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees, but includes loans to Federal Government-owned, self-funding companies that are guaranteed by the Ministry of Finance and described under "*Public Debt and Related Matters—Internal Debt*.") The CBI's policy of *de facto* pegging the Iraqi dinar to the United States dollar has helped bring down inflation from 6.1% in 2012 to just 1.4% in 2015 and 0.5% in 2016.

Despite these successes, Iraq's economy has faced significant challenges since 2014 as a result of the decline in oil prices and the cost of military campaigns against Daesh. The security situation and Federal Budget deficit have also made it difficult for the Federal Government to pursue its development programs. Nominal GDP contracted by 23.4% in 2015 and 3.4% in 2016. While real GDP grew by 4.8% in 2015 and 11.0% in 2016, all of the real growth was realized in the oil sector, which recorded real growth of 18.4% in 2015 and 24.6% in 2016, primarily due to public and IOC investment in the oil sector. 2017 growth is expected to fall below these levels due to stabilizing output in the oil sector. Non-oil sector real GDP declined by 9.6% in 2015 and by 8.1% in 2016. On July 24, 2017 the Council of Representatives adopted the 2017 Supplementary Budget, which anticipates overall revenues of IQD 82.1 trillion, based on the assumption that 3.75 million barrels of oil per day will be exported (including 0.55 million barrels per day required to be delivered by the KRG to SOMO) at an average price of U.S.$44.4 per barrel, and at an exchange rate of IQD 1,182 per U.S.$1. Budgeted expenditures are IQD 107.1 trillion, a 6.4% increase from the budgeted expenditures under the 2017 Federal Budget (the "**2017 Federal Budget**"), resulting in a budgeted deficit of IQD 25.0 trillion. The 2017 Supplementary Budget projects oil revenues at IQD 71.8 trillion, making up 87.5% of the total revenues budgeted and representing a 5.7% increase from the budgeted oil revenues under the 2017 Federal Budget. Non-oil revenues are budgeted at IQD 10.2 trillion, representing a 7.5% decrease from the budgeted non-oil revenues under the 2017 Federal Budget. The Federal Government has been forced to draw on its foreign reserves in order to finance deficit spending and has increased its borrowings locally and internationally. In the face of these challenges, the Federal Government has entered into a three-year Stand-by Arrangement ("**SBA**") with the IMF for SDR 3.831 billion (approximately U.S.$5.3 billion), which is conditional on the implementation of several economic policies and other requirements by Iraq.

Recent Developments

On August 1, 2017 the Executive Board of the IMF completed the Second Review of Iraq's SBA. The completion of the Second Review allows the Federal Government to draw the third instalment amounting to SDR 584.2 million (U.S.$824.8 million), bringing total disbursements to SDR 1.5 billion (U.S.$2.1 billion).

Statistical Data

The following selected economic information is qualified in its entirety by, and should be read in conjunction with, the detailed information appearing elsewhere in this Prospectus. Where indicated, the data presented are estimates or provisional.

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Domestic Economy					
Nominal GDP (IQD trillions)	254.2	273.6	273.6	209.7	202.7
Real GDP (IQD trillions)[(1)]	162.6	175.0	176.3	184.8	205.1
Nominal GDP (U.S.$ billions)	218.0	234.6	234.7	179.8	171.7
Real GDP (growth rate) (%)	12.6	7.6	0.7	4.8	11.0
Nominal GDP per capita (IQD thousands)	7,432	8,186	7,981	5,696	5,637
Nominal GDP per capita (U.S.$)	6,374	7,021	6,845	5,115	4,761

Source: Iraqi authorities' estimates.

(1) Real GDP numbers are based on 2007 constant basic prices.

	Year ended December 31,					Quarter ended March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	(U.S.$ millions, except where otherwise indicated)					
Balance of Payments						
Exports of Goods (FOB)[(1),(2),(3)]	94,208.6	89,767.9	83,980.8	43,441.5	28,359.9	N/A
Imports of Goods (FOB)	50,155.0	51,090.8	46,212.4	33,779.7	19,574.6	N/A
Trade Balance[(1)]	44,053.6	38,677.1	37,768.4	9,661.8	8,785.3	N/A
Current Account[(1)]	29,542.0	20,533.1	21,210.4	1,063.9	2,771.7	N/A
Foreign Reserves (at period end)	87,357.1	84,113.8	66,570.1	53,286.1	44,664.3	46,555.2
Crude Oil Exports (millions of bpd)[(3)]	2.4	2.4	2.6	3.4	3.3	3.3

Source: CBI.

(1) Official statistics may understate Iraq's imports and exports. See "*Presentation of Certain Information*."

(2) Oil export revenues included in "Exports of Goods" are based on cash payments received during the relevant period, not accruals.

(3) Excluding KRG's independent exports, meaning exports of crude oil produced in Kurdistan and exported by a means other than delivery to SOMO. See "*The Economy—Principal Sectors of the Economy—The Oil and Gas Sector—Oil and Gas Production in the Kurdistan Region*."

	Year ended December 31,				Quarter ended March 31,	Suppl. Budget
	2013[1]	2014[1]	2015[1]	2016[1],[2]	2017[2]	2017[3]
Public Finance						
Total revenue (IQD trillions)	115.4	104.4	63.5	55.5	17.2	82.1
Total revenue (U.S.$ billions)	99.0	89.5	54.4	47.0	14.5	69.3
Oil revenues (U.S.$ billions)	90.7	84.5	49.4	40.0	13.0	60.7[4]
Total expenditure (IQD trillions)	131.2	119.0	89.3	84.1	17.6	107.1
Total expenditure (U.S.$ billions)	112.5	102.1	76.5	71.2	14.9	90.4
Overall deficit (IQD trillions)	15.8	14.6	25.8	28.6	0.4	25.0
Overall deficit (U.S.$ billions)	13.6	12.5	22.1	24.2	0.3	21.1
Deficit as a percentage of nominal GDP	5.8	5.3	12.3	14.1	N/A	N/A

Source: Iraqi authorities' estimates, CSO.

(1) Final accounts for the years 2013 onwards have not been approved by the Council of Representatives. See "*Risk Factors—Risk Factors Relating to Iraq—The statistical information published by Iraq may differ from that produced by other sources and may be unreliable*."

(2) Data for 2016 and quarter ended March 31, 2017 is preliminary.

(3) Figures based on the 2017 Supplementary Budget.

(4) Budgeted oil revenues include assumed revenues from 0.55 million barrels per day of crude oil that the KRG is required to deliver to SOMO for export, at an assumed price of U.S.$44.4 per barrel, in exchange for an allocation to the KRG of 17% of Federal Government expenditures (net of certain sovereign expenses). Actual deliveries by the KRG in 2017 have been significantly lower, resulting in corresponding reductions in budget allocations to the KRG.

	As of December 31,					As of March 31,
	2012	2013	2014	2015	2016	2017
Public Debt						
Internal debt (IQD trillions)[1]	11.5	13.2	20.2	31.9	46.9	46.3
Internal debt (U.S.$ billions)[1]	9.9	11.2	17.3	27.1	39.7	39.2
External debt (U.S.$ billions)[1]	18.7	17.8	16.0	16.7	20.6	21.6
Total public debt (U.S.$ billions)[1]	28.6	29.1	33.3	43.8	60.3	60.8
Gross Public Debt as % of nominal GDP[1]	13.1	12.4	14.2	24.4	35.1	35.4[2]

Source: Ministry of Finance.

(1) Excludes claims against Iraq existing in 2003 that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees. Includes loans to Federal Government-owned, self-funding companies described under "*Public Debt and Related Matters—Internal Debt*."

(2) This percentage was calculated based on the GDP for the year 2016.

Summary of the Offering

Capitalized terms not otherwise defined in this overview have the same meaning as in the "Description of the Notes." See "Description of the Notes" for a more detailed description of the Notes.

Issuer	The Republic of Iraq.
Notes Offered	U.S.$1,000,000,000 6.752 per cent. Notes due 2023 (the "**Notes**"), to be issued by the Issuer on August 9, 2017 (the "**Issue Date**"). All references to the principal amount of Notes in this Prospectus are to the par value, including in the case of acceleration.
Issue Price	100.00 per cent, plus accrued interest, if any, from August 9, 2017.
Issue Date	August 9, 2017.
Maturity Date	March 9, 2023.
Interest	6.752 per cent. per annum. payable semi-annually in arrears on March 9 and September 9 of each year. The first payment of interest will be made on March 9, 2018 for the period from and including August 9, 2017 to but excluding March 9, 2018.
Yield to Maturity	6.750 per cent.
Denominations	The Notes will be offered and sold, and may only be transferred, in minimum denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof.
Status	The Notes constitute and will constitute direct, general, unconditional and unsubordinated Public External Indebtedness of Iraq for which the full faith and credit of Iraq is pledged. The Notes rank and will rank without any preference among themselves and equally with all other unsubordinated Public External Indebtedness of Iraq. It is understood that this provision shall not be construed so as to require Iraq to make payments under the Notes ratably with payments being made under any other Public External Indebtedness of Iraq.
Negative Pledge	Iraq has agreed that it will not, for so long as any Note remains outstanding, create or permit to subsist any Lien, other than a Permitted Lien, upon the whole or any part of its property or assets to secure any Public External Indebtedness of Iraq unless the Notes are secured equally and ratably with such Public External Indebtedness. See "*Description of the Notes—Negative Pledge Covenant*."
Events of Default	The Indenture will permit the acceleration of the principal amount (that is, the par value) of the Notes following the occurrence of certain events of default. If the Notes are issued at a discount to their stated principal amount, holders of the Notes bear the risk that upon such an acceleration, they may be unable to collect a portion of the difference between the principal amount of the Notes and the issue price if a court applying New York law deems such portion to be unearned interest. See "*Description of the Notes—Events of Default and Acceleration of Maturity*" and "*Risk Factors—Risk factors relating to an investment in the Notes—The Notes may be issued at a discount to their stated principal* amount."
Form of Notes	Iraq will issue the Notes in registered form, without coupons. Notes sold in offshore transactions in reliance on Regulation S will be represented on issue by the Unrestricted Global Certificate, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary.

	Notes sold to QIBs in reliance on Rule 144A will be represented on issue by the Restricted Global Certificate, which will be deposited with DTC, or a custodian of DTC, and registered in the name of a nominee of DTC.
Taxation	All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Iraq or any political subdivision or taxing authority or agency therein or thereof having the power to tax (for the purposes of this paragraph, a "**Relevant Tax**"), unless the withholding or deduction of such Relevant Tax is required by law. In that event, Iraq will pay such additional amounts as may be necessary to ensure that the amounts received by the holders after such withholding or deduction will equal the respective amounts of principal and interest that would have been receivable in respect of the Notes in the absence of such withholding or deduction, subject to certain exceptions set out under "*Description of the Notes—Additional Amounts*" and "*Taxation*."
Meeting of Holders	A summary of the provisions for convening meetings of holders is set forth under "*Description of the Notes—Meetings, Amendments and Waivers—Collective Action.*"
Use of Proceeds	The proceeds of the issue of the Notes (before the deduction of underwriting commissions in connection with the issuance of the Notes) amount to U.S.$1 billion and will be used by Iraq for general budgetary purposes in accordance with the 2017 Federal Budget Law and the 2017 Supplementary Budget (upon it being signed into law by the President of Iraq and published in the Official Gazette of Iraq). See "*Use of Proceeds*," "*The Economy—Arrangements with the International Monetary Fund—The Stand-by Arrangement*" and "*Public Finance—2017 Federal Budget*," and "*—The 2017 Supplementary Budget*."
Ratings	The Notes are expected to be rated B- by Fitch and B- by S&P. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.
Listing and Admission to Trading	Application has been made to the Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market of the Exchange.
Further Issuances	Iraq may from time to time and without the consent of the holders of the Notes issue additional notes that will form a single series with the Notes subject to certain conditions set out under "*Description of the Notes—Further Issuances*."
Governing Law	New York law.
Transfer Restriction	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities law. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act and applicable state securities laws. See "*Transfer Restrictions.*"
Original Issue Discount	The Notes may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. The Notes will be considered to be issued with OID if the stated principal amount of the Notes exceeds the issue price of the Notes (as determined for U.S. federal income tax purposes) by an amount greater than or equal to a statutorily defined *de minimis* amount. If the Notes are issued with OID, U.S. Holders (as defined below under "*Taxation—United States Federal Income Tax Considerations*") will be required to include such OID in gross income (as ordinary income) as it accrues on a constant yield to maturity basis in advance of

	receipt of cash attributable to such income and regardless of such U.S. Holders' regular method of accounting for U.S. federal income tax purposes. See "*Taxation—United States Federal Income Tax Considerations*" for further discussion.
Trustee, Transfer Agent and Paying Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
ISIN	XS1662407862 for the Unrestricted Global Certificate and US462652AE80 for the Restricted Global Certificate.
Common Code	166240786 for the Unrestricted Global Certificate and 166240794 for the Restricted Global Certificate.
CUSIP	462652AE8 for the Restricted Global Certificate.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and, in particular, should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest.

If any of the risks discussed below are realized, in part or in whole, individually or in some combination, the value of the Notes could decline, and such circumstance could have a material adverse effect on Iraq's ability to pay principal, interest and other amounts due on the Notes, causing investors to lose some or all of their investment.

Iraq believes that the risk factors described below represent the principal risks in relation to investing in the Notes. Prospective investors should, however, note that there may be additional risks and uncertainties that Iraq currently considers immaterial or of which Iraq is currently unaware, and any of these risks and uncertainties could have similar effects as those set forth below or other adverse effects. Prospective purchasers of Notes should make such inquiries as they think appropriate regarding Iraq and the Notes prior to making any investment decision.

Risk Factors Relating to Iraq

Iraq depends on oil exports for substantially all of its foreign exchange revenues and for the large majority of its Federal Budget.

Crude oil exports account for substantially all of Iraq's export revenues, and oil and mining revenues account for over 87% of the expected revenues under the 2017 Supplementary Budget. In 2016, crude oil, refined products and related products represented approximately 99% of Iraq's total export revenues (on a cash basis), and the majority of foreign exchange revenues. Due to this dependency, a decline in oil prices can significantly impact total Federal Government revenues, and the amount of funds available to satisfy Federal Budget requirements or service public debt and other financial commitments. In addition, a decline in crude oil production, or in the ability of Iraq to export its crude oil production, would similarly impact total Federal Government revenues. Given the dependence on crude oil exports, a reduction in crude oil prices or exports would lead to increased Federal Budget deficits, requiring Iraq to reduce spending and to find alternative sources of financing, which may not be available at reasonable cost or at all.

The decline in oil prices that began in late 2014 has substantially impacted Federal Government revenues. The average price realized for Iraqi crude oil exports per barrel sold by the Federal Government was U.S.$102.2 in 2013, U.S.$91.6 in 2014, U.S.$44.7 in 2015 and U.S.$36.1 in 2016. While crude oil exports by the Federal Government have increased significantly over this period compared to prior years, averaging 3.3 million barrels per day in 2016 compared to 2.4 million barrels per day in 2013, the increase in volume has not been sufficient to compensate for the substantial decline in prices. Crude oil export revenues were U.S.$43.6 billion in 2016, compared to U.S.$84.1 billion in 2014 and U.S.$49.1 billion in 2015.

In November 2016, the members of OPEC, together with certain oil exporting countries outside OPEC (particularly Russia), agreed to reduce crude oil exports with a view to limiting excess supply and reversing the decline in prices. In May 2017, the agreement was extended to March 2018. The objectives of the agreement have thus far been achieved, with average monthly Brent blend benchmark prices increasing by 10.2% between November 2016 and May 2017, although prices have declined somewhat in June and early July. Over the November 2016–May 2017 period, the monthly average per barrel export price for Iraqi crude oil increased from U.S.$40.5 per barrel to U.S.$45.7 per barrel, but declined to U.S.$42.7 per barrel in June 2017. As a result of Iraq's compliance with the OPEC agreement, however, export volumes by SOMO have decreased from an average of 3.5 million barrels per day in November 2016 to approximately 3.3 million barrels per day in May as well as in June 2017. While the overall impact on revenues has been positive compared to the revenues contemplated in the 2017 Federal Budget Law and also compared to the revenues contemplated in the 2017 Supplementary Budget, there can be no assurance that this trend will continue. In particular, according to the International Energy Agency there remain substantial excess crude oil inventories compared to projected demand. World market prices may decline at any time for a number of reasons, including lower than expected economic growth in consuming countries, an actual or perceived lack of compliance with the OPEC agreement or its expiration without renewal, increased production in countries that are not part of the OPEC agreement, or an increased supply of renewable energy sources at competitive and/or subsidized prices.

A significant increase in crude oil export revenues will be necessary in order to allow Iraq to finance Iraq's general budgetary needs and the substantial investments in infrastructure that are necessary to rebuild the Iraqi economy. In order to increase exports, Iraq must invest in production facilities, pipelines, export terminals and other export infrastructure, which requires financing that is difficult to obtain in the current oil price environment. Moreover, Iraq cannot increase its exports substantially in the short-term without violating the OPEC agreement. If Iraq is unable to increase its crude oil exports, or if any increase is offset by a new reduction in prices, Iraq may not be able to finance vital investments in infrastructure.

The large majority of Iraq's producing fields are currently operated under service contracts between companies owned by the Ministry of Oil and international oil companies ("**IOCs**"). While the economic terms of such contracts have been designed to encourage the IOCs to increase total production, if the IOCs fail to make the investments necessary to increase production, or if the Iraqi national transporter is unable to receive such production due to a lack of infrastructure, exports of crude oil may not increase as much as anticipated. Moreover, once the IOCs make such investments, a significant proportion of the revenue from incremental production will be devoted to reimbursing the costs of the IOCs and paying their remuneration, and thus will not be available to fund Iraq's other requirements. As a result, even if the service contracts result in a substantial increase in crude oil production, it may be several years before Iraq is able to realize most of the benefits of such an increase. In addition, the entitlements of the contractors to receive cost reimbursement and remuneration fees do not depend on oil prices or on export volumes (which are currently constrained by the OPEC agreement). Recent declines in oil prices have resulted in a significant increase in the share of Iraq's oil exports devoted to payments to contractors and this trend could continue. See "*The Economy—Principal Sectors of The Economy—The Oil and Gas Sector—Upstream—Service Contracts*." There have been periodic initiatives to renegotiate certain terms of the service contracts to reduce their short-term budgetary impact for Iraq, and Article 48 of 2017 Federal Budget Law requires the Federal Government and the Ministry of Oil to review the licensing rounds' service contracts to amend their terms in view of protecting Iraq's economic interests, increasing oil production and decreasing expenditure. However, no concrete steps have been taken as yet. Even if discussions with a view to renegotiation of the services contracts are commenced, there can be no assurance that such discussions will be successful, or that any revised terms will be sufficient to provide the required level of cash flow relief. Moreover, any contractual amendments resulting from such renegotiations will necessarily involve better terms for the IOCs in the longer term in exchange for short-term relief, which could reduce or postpone the long-term benefits of the service contracts to Iraq.

In addition, Iraq's capacity to export crude oil and its plans to increase exports have been diminished by the security situation in the northern and western part of the country, as well as in Syria and elsewhere in the region. The export pipeline to Turkey has been severely damaged by insurgent attacks, and continuing security issues have made repairs difficult or impossible. In addition, the Turkish side of the pipeline has been affected by oil theft and sabotage by the militant wing of the Turkish Kurdistan Workers' Party ("**PKK**"). Iraq's plans to increase export capacity by constructing or renovating pipelines to Jordan and to Syria have also been impacted by security issues. If the security situation remains difficult or worsens, Iraq's ability to export crude oil, and the level of Federal Government revenues, will continue to be adversely affected. In addition, a significant portion of Iraq's oil exports must travel through the Strait of Hormuz. Any armed conflict or tensions in that area could adversely impact the levels of Iraqi oil exports.

Iraq depends on a pipeline that is controlled by the KRG to transport crude oil from the Kirkuk field to international markets for export. For several years, there have been disputes between the Federal Government and the KRG, including legal proceedings, regarding the KRG's independent exports of crude oil. While both the 2017 Federal Budget Law and the 2017 Supplementary Budget provide for the use of the KRG pipeline to transport 0.3 million barrels per day of Kirkuk crude oil and 0.25 million barrels per day of crude oil produced in Kurdistan for the account of the Federal Government, KRG deliveries of crude oil to the Federal Government have been sporadic, and have stopped altogether during certain periods, including in 2017. There have also been internal political disputes in the Kurdistan region, which may have affected, and may in the future affect, the implementation of these provisions. See "*The Economy—Principal Sectors of the Economy—The Oil and Gas Sector—Oil and Gas Production in the Kurdistan Region*." If the KRG does not transport crude oil for the account of the Federal Government as contemplated in the 2017 Federal Budget Law and in the 2017 Supplementary Budget, Iraq's crude oil exports and revenues will be adversely affected.

Iraq faces significant security issues, notably in relation to Daesh, that affect its economy and stability and that require it to incur substantial costs.

The Iraqi economy has been significantly impacted by difficult security conditions for more than a decade. In recent years, the war against Daesh has become the highest priority of the Federal Government.

In June 2014, Daesh proclaimed itself to be a caliphate and began an offensive with the objective of taking over most of the territory in northern and western Iraq. Daesh captured significant territories in these regions, particularly in Anbar, Nineveh (where Daesh executed around 5,000 Yazidis after it captured the Sinjar District in August 2014) and Salah Al-Din governorates. Daesh also took control of Iraq's second largest city, Mosul, as well as the cities of Tikrit and Fallujah, close to Baghdad. It sought to occupy areas in the region of Iraqi Kurdistan and the Kirkuk governorate, where large oilfields are located, but its offensives there were largely repelled by warplanes from the international anti-Daesh coalition and Iraqi and Kurdish Peshmerga forces. Daesh attacks also severely damaged important infrastructure, including Iraq's largest refinery in Baiji, which resulted in the closure of the refinery, and the export pipeline running from Kirkuk to Turkey. Daesh also threatened several important dams, although its offensives there ultimately were repelled.

The conflict with Daesh has also resulted in a large number of civilian casualties. According to an April 2017 report published by the Human Rights Office of the UN Assistance Mission for Iraq (the "**UNAMI Report**"), between February 3, 2017 and April 3, 2017, at least 908 civilians were killed and at least 1,163 wounded, bringing the total number of civilian casualties in Iraq since the beginning of the armed conflict in January 2014 to at least 80,521 (28,023 killed and 52,498 wounded). In addition to the large number of civilian casualties, there have been reports of abductions, rape and other forms of sexual and gender-based violence perpetrated against women and children, slavery and trafficking of women and children, forced recruitment of children, destruction or desecration of places of religious or cultural significance, wanton destruction and looting of property, and denial of fundamental freedoms. Daesh embarked on a social media campaign which has succeeded in attracting adherents from as far away as Europe, the United States and Australia.

Daesh has capitalized on the sectarian divisions in Iraq by presenting itself as a defender of the rights of Sunni Muslims and striving to create an Islamic Sunni caliphate, and has from time to time been able to occupy and take control of parts of the country that were previous strongholds of al-Qaeda. Daesh influence in Iraq has been largely limited to these same areas, which do not include Iraq's principal oil fields located in the South.

The security situation has materially and adversely impacted Iraq's economy in a number of respects. Combatting Daesh insurgents is expensive, consumes a significant portion of the Federal Budget, in amounts that cannot easily be predicted, and adds to Iraq's debt burdens. The Federal Government has been forced to devote substantial amounts of time to security issues, leaving it less time to focus on economic issues. The war against Daesh, coupled with recent budgetary constraints, has halted the full implementation of the Federal Government's 2014-2018 Strategic Plan and the set of reforms announced in August 2015 by the Federal Government. Iraqi and foreign businesses have been reluctant to make substantial investments except in limited areas, such as oil exploration and production and related infrastructure in the southern part of the country. Certain parts of Iraq are essentially cut off from the main economy, reducing economic activity overall and making the collection of taxes difficult or impossible in the affected areas. It has also halted the development of certain gas fields in western Iraq, which in turn will limit the ability of the Federal Government to improve electricity production in the area, affecting the potential for economic development. See "*—Iraq suffers from severe electricity shortages*." Additionally, Daesh has managed to seize significant amounts of cash on a number of occasions from Iraqi banks, including the CBI, in areas under their control, which has adversely affected the Iraqi banking system and economy. Regional trade has also been affected due to lack of access for transportation of goods through regions controlled by Daesh. For example, although the trade routes have been recently reopened, trade with Jordan had significantly declined due to the inability to transport goods by truck through areas controlled by Daesh. There has been extensive damage done to infrastructure in some regions of Iraq and a substantial amount of capital resources will be required to repair such infrastructure. Damage to infrastructure has impaired economic activity, and the need to repair such infrastructure will likely impact the Iraqi economy for many years after Daesh is defeated.

Despite the Federal Government's recent victory in liberating Mosul, Daesh continues to control certain territories in northern and western Iraq, mainly in the towns of Tal-afar, Huweijah and certain small towns in Al-Anbar, and to carry out indiscriminate attacks in Baghdad and other cities in the south. A significant number of civilians continue

to live under Daesh control. Furthermore, in parallel with its loss of territory, Daesh has stepped up terror attacks, including suicide bombings, in Baghdad and other areas outside its control. Even if the Federal Government succeeds in maintaining control of Mosul after its liberation from Daesh, Mosul could potentially be impacted by the risks identified in, "*—Sectarian divisions may continue to impact the political system, security situation, and economy in Iraq*."

If Daesh is not defeated, or if it takes many years to defeat it, Iraq may face a significant threat to its political stability, and the security issues will continue to materially and adversely affect the economy and the Federal Government's ability to progress its agenda of reconstruction and diversification of the economy. Once Daesh is pushed out, massive reconstruction works will be required, especially in the cities of Mosul and Ramadi, which is expected to place a substantial financial burden on the Federal Government.

If Iraq does not meet the conditions in its IMF Stand-by Arrangement, its access to IMF funding and its liquidity may be adversely affected.

In July 2016, the Executive Board of the IMF approved a three-year SBA with Iraq for SDR3.831 billion (approximately U.S.$5.3 billion). Approximately U.S.$634 million of this amount was disbursed to Iraq upon the approval of the SBA in July 2016. The SBA contemplated six additional disbursements in September 2016, April 2017, October 2017, April 2018, October 2018 and April 2019, each to be preceded by a review assessing Iraq's compliance with the conditions of the SBA. The second disbursement only occurred in December 2016, and subsequent disbursements are now scheduled to occur following review assessments commencing in March and September of each year. The Second Review was scheduled in March 2017 but only achieved IMF Executive Board approval in August 2017. The schedule of future reviews and disbursements may also be modified.

The continuation of the SBA is conditional upon Iraq's compliance with several prior actions, quantitative performance criteria, and structural benchmarks. In order to meet these conditions, Iraq will need to implement significant adjustments to its economic policies, some of which may meet political and popular resistance.

Although the IMF Executive Board approved the disbursement of the second instalment under the SBA in the amount of U.S.$618 million in December 2016 upon the completion of the First Review, the First Review revealed a mixed performance by Iraq under the SBA, and Iraq had to request several waivers in connection with the First Review. In connection with the Second Review, none of the quantitative performance criteria were met. There is no guarantee that Iraq will be able to comply with the conditions of the SBA, whether in connection with the Second Review or the reviews preceding the four other disbursements under the SBA. If it does not do so, it may not be permitted to access further disbursements under the SBA. See "*The Economy—Arrangements with the International Monetary Fund—The Stand-by Arrangement*."

In its session held on July 24, 2017 the Council of Representatives adopted the 2017 Supplementary Budget as required to comply with one of the Prior Actions for the Second Review in advance of the IMF Executive Board meeting scheduled in early August 2017. The 2017 Supplementary Budget is designed to be in line with the macroeconomic framework agreed with the IMF. Similarly to the 2017 Federal Budget, the 2017 Supplementary Budget contemplates that a significant share of the budgeted deficit will be funded with IMF financing, as well as financing from other international sources that may depend on the continued availability of funding from the IMF. It is likely that Iraq will require similar financing to cover budget deficits for subsequent years. If some or all of this financing is not available in a timely manner (or at all), it will be difficult for Iraq to finance its budget deficit, and as a consequence Iraq may be required to use additional foreign exchange reserves (if available) or to further reduce public expenditures. The limited availability of foreign financing may also have an adverse impact on Iraq's ability to service its external debt, including the Notes. See "*—Iraq must finance substantial budget deficits, and as a result has faced and will continue to face a significant increase in gross public debt levels and/or decrease in foreign exchange reserves.*"

Iraq must finance substantial budget deficits, and as a result has faced and will continue to face a significant increase in gross public debt levels and/or decrease in foreign exchange reserves.

The sharp decline in Iraqi oil prices from U.S.$102.2 per barrel on average in 2013 to U.S.$36.1 per barrel in 2016 has caused a sharp increase of the budget deficit from 5.8% of GDP in 2013 to 14.1% of GDP in 2016, and of the public debt (excluding pre-2003 claims against Iraq that have not been renegotiated, Federal Government arrears

and contingent liabilities arising under Federal Government guarantees, but including loans to Federal Government-owned, self-funding companies described under "*Public Debt and Related Matters—Internal Debt*") from 12.4% of GDP as of December 31, 2013 to 35.4% of GDP as of March 31, 2017. Iraq's 2017 Supplementary Budget anticipates a deficit of approximately IQD 25.0 trillion. This anticipated 2017 deficit mainly results from the Federal Government's inability to reduce salaries and pensions of public sector employees, coupled with lower oil prices in comparison to 2014 and earlier years, higher military and security spending, increasing imports due to lower crude oil refining and agricultural production, and costs associated with the increased burden of supporting internally displaced persons. Iraq is expected to face significant fiscal policy challenges in the future. Expenditures need to rise in the coming years to address the country's substantial infrastructure, security and social needs. Revenues, as discussed above, are significantly dependent on the international price of oil, heightening the country's vulnerability to cycles associated with fluctuations in world oil prices. Iraq has in the past also faced low Federal Budget execution rates. See "*Public Finance—Federal Budget Execution.*"

The double challenge of Daesh and the downturn in oil prices has been impeding the Federal Government's ability to provide macroeconomic stability. The Federal Government has recently started to implement a program of fiscal consolidation, the purpose of which is to contain the increase in total public debt and the decline of gross foreign exchange reserves (which declined from U.S$84.1 billion in 2013 to U.S.$44.7 billion in 2016) to sustainable levels. The Federal Government's efforts to diversify its sources of revenues, broaden the tax base or reduce expenditure has sometimes been met by political opposition, causing the Federal Government to reverse course in its plans. The Federal Government has also been reducing all but essential domestic non-oil investment projects, which could adversely impact the general living standards of the population and growth in the non-oil sector.

As a result of recurring deficits since 2013, the increase in borrowings and the decrease in nominal GDP, public debt, both in absolute terms and as a percentage of GDP, has significantly increased in the period between December 31, 2013 and March 31, 2017. Furthermore, Iraq expects to conduct further borrowings from both local and international lenders to cover deficits in 2017 and, absent a significant increase in the price of oil in the near term, in subsequent years as well. The 2017 Supplementary Budget anticipates financing IQD 23.3 trillion of the budgeted IQD 25.0 trillion deficit with domestic and international borrowings. Approximately IQD 11.5 trillion (equivalent to U.S.$9.3 billion) would be from international lenders, including both concessional lenders (such as the IMF, the World Bank and the Organization for Economic Cooperation and Development ("**OECD**") nations) and non-concessional lenders (such as international bond investors and commercial banks).

A large portion of Iraq's public debt consists of domestic borrowings, primarily from entities owned or controlled by the Federal Government, such as state-owned banks and, indirectly, the CBI, and a significant portion of external public debt is comprised of concessional loans. Due to this, the ability to finance the deficit is partly dependent on the funding availability from the domestic banks. See "*Monetary System—The Iraqi Banking System*." However, to the extent Iraq continues to run substantial fiscal deficits, it will require financing from domestic and international sources, which may not be available on reasonable terms or at all. The increased borrowing of funds in the domestic market may crowd out investment in the Iraqi private sector and reduce the level of CBI and government reserves. Falling levels of CBI and government reserves could impair the CBI's ability to defend the Iraqi dinar's peg to the U.S. dollar and could adversely impact Iraq's ability to service its non-Iraqi dinar debt and payment obligations or pay for imports. Moreover, the ability of the Federal Government to repay its loans may, depending on the level of oil production, world oil prices and the security situation, depend on its ability to obtain additional or replacement financing from domestic and international sources. In light of Iraq's high debt load and its expected future borrowings, failure to carefully manage Iraq's debt strategy could result in unsustainable debt levels, which could result in further strain on Federal Government finances and could materially adversely affect Iraq's ability to perform its obligations under the Notes.

Regional issues have had and may continue to have a significant impact on Iraq.

Instability in neighboring countries has exacerbated the security challenges Iraq faces. Syria continues to be significantly affected by its war, which has been ongoing since 2011. Daesh controls significant areas in Syria, which has provided Daesh with a base from which it has planned and launched operations in Iraq. Daesh continues to control some border crossings between Syria and Iraq, making it impossible for either government to control the movement of persons, goods and arms between the two countries. Iraq has also had to accommodate substantial numbers of internal and external displaced persons, estimated to be more than four million according to the office of the UN High Commissioner for Refugees ("**UNHCR**"), putting added strain on the country's public finances and

resulting in unemployment and dislocations, which bring about adverse social, health and environmental consequences. The cost of relocating and resettling displaced persons and providing them with humanitarian assistance is a significant burden on Iraqi public finances. The regional conflict has drawn forces and militias from neighboring countries, exacerbating sectarian tensions and increasing the complexity of the security situation.

More recently, Iraq has been affected by internal security issues in Turkey, which have escalated into conflict in northern Iraq, following a series of Turkish military campaigns against Daesh and the militant wing of the PKK. The tensions between Iraq and Turkey have increased in the last few years including, in particular, as a result of Turkey's establishment in March 2015 of a military base in Bashiqa near the Iraqi city of Mosul to train local forces to fight against Daesh. The presence of around 500 Turkish troops has been a source of contention between Iraq and Turkey. The two countries summoned their respective ambassadors in October 2016 after Iraq described Turkish troops in the country as hostile occupying forces, and the Council of Representatives called for the withdrawal of the Turkish troops. High-level bilateral discussions have failed to resolve the issue diplomatically. This Turkish presence has also exacerbated the tense relationship between Iraqi Kurds and Turkey. On April 25, 2017 five Pershmerga fighters were killed during a Turkish attack on Sinjar in Iraq. Iraq denounced the strike as a Turkish violation of its sovereignty.

In addition, the Kirkuk-Ceyhan pipeline, through which most of the oil from northern Iraq is exported, was significantly damaged by an attack on the pipeline by the militant wing of the PKK in July 2015. This resulted in the closure of the pipeline for a week, halting oil exports to Turkey during the period. Additional attacks have resulted in periodic closures since then.

A significant portion of Iraq's oil exports from the southern part of Iraq are transported through the Strait of Hormuz. The Strait of Hormuz, located between Iran and Oman, connects the Arabian Gulf with the Arabian Sea and is the only sea route through which Iraq exports oil to Asia, Europe and the Americas. It is therefore of strategic importance to Iraq. Any conflicts or threatened conflicts in or near the Arabian Gulf or the Strait of Hormuz could have a negative impact on Iraq's oil exports. The on-going war in Yemen, which has been exacerbated by the rivalry between regional powers, or the suspension of diplomatic relations of Saudi Arabia, the United Arab Emirates, Bahrain and other countries with Qatar, announced in June 2017, may increase tensions in the Arabian Gulf further.

From an economic perspective, regional security issues have had a number of impacts beyond the direct effects of the insurgent operations. Regional trade has been significantly affected. The regional conflict has also resulted in the suspension of numerous investment projects, including the renovation of an old oil export pipeline to Syria. If the regional situation does not improve dramatically in the near future, it is likely to continue to have a significant economic impact on Iraq for a number of years to come.

Sectarian divisions may continue to impact the political system, security situation and economy in Iraq.

The Iraqi people are characterized by a great degree of religious and ethnic diversity. In the past, disputes and rivalries between groups purporting to represent Sunnis, Shia and Kurds have led to internal armed conflict, insurgencies and attacks against the civilian population. Many of Iraq's political parties are organized along sectarian lines. There have been sharp disagreements over a number of important issues, such as budget allocations and oil and gas production and sales, between the Federal Government and the KRG, which has officially announced its plan to organize a referendum on the right to self-determination in September 2017. While these sectarian and ethnic divisions in Iraq are historically rooted (see "*Description of the Republic of Iraq—History*"), they have become even more pronounced in the aftermath of the first Gulf War, and the insurgencies and armed attacks occurring following the invasion of Iraq in 2003. The rise of Daesh has been in part spurred by, and has contributed to the growth of, these sectarian divisions. These sectarian divisions have resulted in political stalemates, have displaced significant numbers of Iraqis and have negatively impacted economic development. Any escalation of sectarian tensions may threaten the political stability of Iraq and put further pressure on the political system and economy.

The KRG plans to hold a referendum on the right of self-determination for the region, which could potentially result in a declaration of independence.

In June 2017, the president of the Kurdistan region of Iraq announced that a referendum will be held on September 25, 2017 on the right of self-determination for the region. The referendum may also cover territories that have been the subject of disputes between the KRG and the Federal Government over many years, including Kirkuk, although it is not clear how this would be implemented. If the referendum results in a vote in favor of self-determination, it is not certain whether such right will actually be sought, or on what terms, and whether the exercise of such right will lead to independence. Currently, significant amounts of Iraq's foreign trade transits through the Kurdistan region, and such trade may be adversely affected by any move towards Kurdistan's independence. Moreover, if the Kurdistan region were to become independent, Iraq would need to negotiate an inter-governmental agreement in order to use the oil pipeline that runs through the Kurdistan region into Turkey, and it may prove impossible to negotiate such an agreement on reasonable terms or at all. In addition, such initiative in the Kurdistan region of Iraq may cause Kurdish populations in neighboring countries to seek a change in their political status, which could increase regional instability.

The Iraqi political system is characterized by political divisions, which can impair the effectiveness of the Federal Government and lead to stalemates.

Since the adoption of the Federal Constitution in 2005, political divisions have affected the effectiveness of the Federal Government and the Council of Representatives, adversely affecting the budget process and the economy more generally. The formation of governments and governing coalitions after elections has taken substantial amounts of time, during which caretaker governments have acted with limited ability to undertake initiatives to develop the economy. Important legislation contemplated in the Federal Constitution, including a hydrocarbon law and a law to regulate the sharing of national resources have yet to be adopted. Legislative reforms necessary to improve the economy are not part of the legislative agenda, which is dominated by other issues. There can be no guarantee that further liberalizing or modernizing reforms will be implemented by this or future governments.

The Federal Government announced a series of reforms in August 2015, seeking to reduce corruption and political appointments based on political and religious affiliation. These reforms were accompanied by the dismissal of many high-ranking government officials and the elimination of certain governmental posts. Certain politicians have opposed these measures on both political and legal grounds. Moreover, the Federal Government's priorities in recent years have shifted towards combatting Daesh and funding the budget deficit, which has halted the full implementation of the set of reforms announced in August 2015.

In August and September 2016, the Council of Representatives withdrew confidence from the then Ministers of Defense and Finance following accusations of corruption and, in the case of the Minister of Finance, misuse of state funds. Both ministers denied the accusations. Under the Federal Constitution, a withdrawal of confidence in a minister results in that minister's removal from office. Acting ministers were appointed as a result.

Political divisions between the Federal Government and the KRG have impacted the budget process and oil exports. For a number of years, the KRG has exported oil independently of the Federal Government, resulting in a dispute that has involved litigation in Iraqi and international courts. In 2014, the dispute led to a political stalemate that made it impossible for the Council of Representatives to adopt a Federal Budget Law for 2014, forcing Federal Government ministries to operate on the basis of a provisional budget. While the Federal Budget Laws for 2015, 2016 and 2017 (including the 2017 Supplementary Budget) have provided for volumes of crude oil to be transported by the KRG on behalf of the Federal Government, compliance with these provisions has been sporadic, and has stopped for significant periods of time including in 2016 and 2017. The KRG has maintained independent crude oil exports throughout this period. More generally, the budget agreement between the Federal Government and KRG is still valid but not currently implemented. In addition, political disputes among parties in the Kurdistan region have affected the allocation of oil revenues in Kurdistan, and may have affected (or may in the future affect) the implementation of the budget agreement. A portion of the Federal Government's oil exports depends on the continuance of the budget agreement, as the Federal Government depends on the KRG to transport oil from the Kirkuk fields in the north of Iraq to Turkey for export, because the Federal Government-controlled pipeline that runs through Iraqi territory south of the Kurdistan region has been rendered inoperable by insurgent attacks. See "*The Economy—Principal Sectors of the Economy—The Oil and Gas Sector—Oil and Gas Production in the Kurdistan Region*." If the dispute between the Federal Government and the KRG worsens, there could be further political

stalemates, and the Federal Government's ability to export oil through the KRG's pipeline could be adversely affected. See "*—Iraq depends on oil exports for substantially all of its foreign exchange revenues and for the large majority of its Federal Budget*."

Iraq has substantial contractual financial commitments.

Iraq has substantial financial commitments that are not part of its public debt, amounting to several billion dollars each year. These include the obligation to make payments to IOCs under the service contracts. While these payments generally are made from a portion of the incremental oil production generated by the IOCs, if the Iraqi national transporter is unable to take the incremental production, or if exports are curtailed by OPEC limitations such as pursuant to the recent OPEC agreement that will be effective at least until March 2018, compensation is due to the IOCs, effectively resulting in "take-or-pay" obligations. In certain months, up to 30% of Iraq's crude oil exports have been allocated to payments due to the IOCs (including arrears). In the past, significant levels of arrears to IOCs have accrued, reaching U.S.$3.5 billion as of December 31, 2015. Though the levels have since been reduced to U.S.$1.2 billion as of December 31, 2016, and to zero as of March 31, 2017 (other than technical arrears resulting from the need to aggregate relatively small volumes due to individual IOCs to allow full tankers to be allocated for this purpose), arrears may again arise in the future if oil prices decline, or as a result of high spending pressures from the fight against Daesh and the resulting increase in internally displaced persons ("**IDPs**").

Iraq is also committed under UN Security Council Resolutions to pay 5% of its oil and gas export revenues, as well as 5% of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers, to a fund that is used primarily to compensate Kuwait for damage caused by the first Gulf War in 1990-91. The outstanding obligation, amounting to U.S.$4.6 billion, has been suspended since 2015 and, in November 2016, the Governing Council of UN Compensation Commission (acting upon the request of Iraq and with the consent of Kuwait) adopted decision 274 of 2016 approving a further postponement of compensation payments to Kuwait until the end of 2017. However, the compensation obligation remains and has not been cancelled.

In 2014, Iraq entered into two power purchase agreements with independent power producers to develop in aggregate 6,000 MW of electricity production capacity over a five year period. In 2015, Iraq also entered into two power purchase agreements to develop approximately 1,400 MW through converting existing power plants in southern Iraq into combined cycle plants. Finally, in late 2016, Iraq entered into a fifth power purchase agreement with a developer to develop a 750 MW combined cycle power plant. Pursuant to these contracts, the MoE is required to buy, under a "take or pay structure," between 70% and 90% of the production of the new or converted power plant at a set tariff for between 15 and 17.5 years. See "*The Economy—Principal Sectors of the Economy—Electricity*" *and* "*Public Debt and Related Matters—Government Guarantees*." Iraq is also required to purchase natural gas that is processed by the Basrah Gas Company ("**BGC**") as well as natural gas from Iran, and to make minimum guaranteed payments for the transport of crude oil through Turkey (to the extent not excused by *force majeure*). In addition, Iraq has made and will continue to make substantial financial commitments for the import of refined oil products, electricity and natural gas. Most of these commitments are not indexed to the price of oil, meaning that they represent a larger share of the Federal Budget in a low oil price environment. Iraq will be required to devote a significant portion of its Federal Budget to meeting these commitments in the coming years, reducing the amounts available for other purposes.

Iraq is dependent upon the import of refined oil products, food and capital goods, and as a result is vulnerable to global price fluctuations.

Iraq's refineries consistently operate significantly below their production capacities, and the largest refinery, Baiji, was severely damaged by insurgent attacks in 2014 and has not yet been rehabilitated. About half of Iraq's refined products consist of heavy fuel oil that is not suitable for use and is blended into the crude oil export stream. As a result, Iraq imported approximately U.S.$2 billion of refined products in 2016. While several new refinery projects are either under construction or being studied, these projects have been impacted by a lack of financing, and no assurance can be given that Iraq's refining capacity will increase significantly, particularly in the near term. Moreover, the Federal Government regulates the prices of certain oil products through the use of subsidies to retailers. The cost of these subsidies is substantial.

Iraq also imports most of its food products, as well as consumption and investment goods. Iraq's agricultural industry, which historically accounted for a substantial share of the country's GDP, has suffered years of neglect due

to war and sanctions. Although the level of production of some important food products such as wheat, vegetables and fruits increased recently (see "*The Economy—Principal Sectors of the Economy—Agriculture*"), Iraq continues to import a majority of its food needs and remains dependent on imports of other food items, such as cereals, rice, sugar, meat, cooking oil and dairy products. High dependence on food imports may lead to higher food prices and lower food security. A high level of food imports also puts pressure on the Federal Government to subsidize the price of food products, putting added strain on the country's public finances. Iraq also imports the large majority of its consumer goods. Capital investments for infrastructure are also dependent on imports of goods such as building materials and equipment. As a result of the substantial infrastructure deficiencies in Iraq, there will continue to be increased needs for building materials and equipment. See "*—Iraq faces significant economic development challenges that require substantial investments in infrastructure and institutions*." Iraq's reliance on imports is likely to persist as domestic production remains muted in light of the continuing conflict with, and partial occupation by, Daesh, and as the delivery of public sector services in Iraq continues to be challenging. See "*Foreign Trade and Balance of Payments—Foreign Trade—Imports and Exports*." Iraq is therefore vulnerable to global price fluctuations (which in the case of foodstuffs and raw materials, can be large), and a sustained increase in the prices of imported products will exert upward pressure on prices and on inflation and will negatively impact Iraq's trade balance.

Iraq's natural gas resources are not sufficiently developed, and Iraq flares significant quantities of natural gas, causing economic waste and pollution.

Iraq has substantial reserves of natural gas, but these reserves currently are significantly underdeveloped. Substantially all of Iraq's natural gas production consists of associated gas, which is a by-product of crude oil production. Because of a lack of processing capacity, the majority of Iraq's associated natural gas is currently flared, resulting in economic waste and pollution. See "*—Iraq faces significant environmental issues*." In addition to contributing to climate change, the high levels of gas flaring in Iraq results in heat stress and acid rain which continue to degrade the ecosystem. Continuous gas flaring gives rise to atmospheric contaminants, which could acidify the Iraqi soil and negatively impact the agriculture industry in Iraq. Increased exposure to hazardous air pollutants emitted during incomplete combustion of gas flare also results in adverse health consequences.

While Iraq has taken steps to reduce flaring, most notably by establishing the BGC, a joint venture between a Ministry of Oil company and affiliates of Shell and Mitsubishi that has rehabilitated existing processing facilities and is expected to invest in new processing facilities for associated gas from certain fields in the southern part of Iraq, it will take a significant amount of time before the processing capacity of BGC is sufficient to take all or most of the associated gas from these fields, particularly given the difficulties that BGC has in the past encountered in receiving payment for the natural gas that it has processed. The Ministry of Oil is also studying the creation of three gas "hubs" for the development of new gas processing facilities, but those projects are at an early stage, and it will take time before those facilities come on line assuming that the projects go forward. Iraq has also awarded service contracts for the development of non-associated gas fields, but these projects remain in early stages (and one of them is suspended, because it is in an area controlled by Daesh insurgents).

The development of Iraq's natural gas resources will require substantial financial investments. Iraq is committed to purchase the natural gas processed by BGC and to fund its share of BGC's investment requirements, and it has not always been able to meet these commitments. It is also committed to pay IOCs under service contracts for investments in gas processing facilities and the development of natural gas fields, under the "take-or-pay" arrangements described above. These investments, if made, will amount to several billion dollars. Iraq's ability to recover these investments may be limited as there currently are no petrochemical or other facilities in Iraq that would be natural domestic off-takers for gas. In addition, electricity prices in Iraq are subsidized and regulated at low rates (and payments for electricity are irregular). Although the Council of Ministers announced in 2015 a set of reforms targeted at improving the quality of Federal Government services, which included calls for the adoption of a set of measures designed to end problems with the electricity sector, and also approved the restructuring of electricity prices, there have been limited concrete steps taken and the increase in electricity tariffs has not been applied in certain areas due to objections from local business owners and members of the public. Also, Iraq will continue to have a significant shortage of natural gas required to meet its electricity needs for at least the next few years, and has entered into contracts to import natural gas from Iran both in the central and southern parts of Iraq. It is therefore likely to be several years before Iraq is able to export natural gas in significant quantities.

The statistical information published by Iraq may differ from that produced by other sources and may be unreliable.

The CSO, the Ministry of Finance, the CBI, the Ministry of Oil and other official Federal Government sources produce statistics relating to Iraq and its economy. Although collaborative efforts are being taken by the relevant Federal Government agencies and ministries in order to produce accurate and consistent social and economic data, there may be inconsistencies in the compilation of data and methodologies used by some of these bodies, and, in common with many developing economies, given the relative size of the informal economy in Iraq there may be material omissions or misstatements in the statistical data prepared by such bodies. Notwithstanding the fact that the IMF has worked closely with the relevant Federal Government departments to improve data collection and reduce inconsistencies, potential investors in the Notes should be aware that the data in this Prospectus may not have been prepared in accordance with international standards and/or to the same degree of accuracy as equivalent statistics produced by the relevant bodies in more developed countries. As a result, there can be no assurance that these statistics are as accurate or as reliable as those published by more developed countries.

The quality of official data is also impacted by circumstances specific to Iraq. For example, Iraq's balance of payments statistics include very large net errors and omissions figures, which in turn are probably due to significant underreporting of imports, unrecorded outflows of capital and delays in reporting relevant data by the recording units to the central authorities. Output in areas under the jurisdiction of the KRG cannot always be directly measured by the Federal Government. While final accounts related to the Federal Budget are required by law to be subject, among other things, to a process of audit, approval by the Council of Ministers, approval by the Council of Representatives, and publication in the Official Gazette, the Council of Representatives has not approved the final accounts after 2013.

Furthermore, the analysis of the economic situation and prospects in Iraq is hampered by lack of timely data. Some of the statistics contained in this Prospectus for 2015, 2016 and 2017 may be indicated as estimated or provisional figures that are subject to later revision. For example, GDP data only becomes final two years after the end of the reference year. In particular, prospective investors should be aware that figures relating to Iraq's GDP, public finance, public debt, foreign trade and balance of payments, and other figures cited in this Prospectus may be subject to some degree of uncertainty and may be subsequently amended when updated information is obtained by the relevant Federal Government ministry or agency. As a result, the information set forth in this Prospectus may become outdated relatively quickly.

Official Iraqi GDP and oil production and export data have certain limitations (in particular, the exclusion of oil production in Kurdistan to the extent not exported by SOMO and, in the case of GDP data, the exclusion of areas under the control of Daesh). GDP data presented in this Prospectus purports to reflect such excluded output, though there can be no assurances that the adjustments are accurate. Official statistics likely underreport imports by a significant margin, as imports into the region of Kurdistan are not included and imports at other entry points into Iraq are not systematically measured. All statistical information provided in this Prospectus may differ from that produced by other sources, including the IMF, for a variety of reasons, including the use of different definitions and cut-off times.

Although there have been significant efforts to improve the compilation of Iraq's statistical data in recent years, including through technical assistance provided by the IMF, errors and omissions in data persist and may complicate the assessment of such data.

Iraq's access to fresh water resources depends on sources that originate in other countries.

Substantially all of the water used by Iraq comes from the Tigris and Euphrates rivers. A disruption to the supply of river water would significantly impact Iraq's economy and its population. Iraq's fresh water sources originate in other countries, with the result that Iraq depends on international agreements to ensure continued access to water. Moreover, in 2014 Daesh insurgents attempted to seize control of Iraqi river dams. While these attempts have largely been unsuccessful, if Daesh or other insurgents were in the future able to seize or significantly damage these dams, there would be a risk of major flooding which could result in damage to property and loss of life in the basins near the dams, as well as disruption of the water supply elsewhere in Iraq, including in Baghdad. In particular, the conflict with Daesh has negatively affected the maintenance of the Mosul dam in northern Iraq, exposing the dam to

the risk of collapsing, which could trigger floods engulfing huge parts of Iraq and carrying with it unexploded ordinances, as well as toxic substances from oil refineries and human waste.

In addition, Iraq's access to fresh water could be adversely affected by the construction of dams in neighboring countries. For example, the Ilisu Dam, which is currently being constructed by Turkey on the Tigris river, is expected to significantly reduce the flow of the Tigris river entering into Iraq once completed. In addition, the Daryan Dam, currently being constructed by Iran, will largely restrict the inflow of the Sirwan river, which is the main supplier of fresh water in large parts of the Kurdistan region. More recently, Iran announced that it may take actions to reduce the water flowing into the Greater Zab river in Kurdistan. If this were to occur, it is possible that the KRG might compensate for this by withholding some water coming from the Tigris river.

Moreover, the declining levels of fresh water flow from the Tigris, Euphrates and other tributaries to Shatt Al-Arab has led to increased levels of salinity intrusion in Shatt Al-Arab due the intensified backflow of salt waters from the Arabian Gulf. The high salinity level is expected to have a significant impact on agriculture, livestock and fishing, especially in the Muthanna, Maysan, Basrah and Wassit governorates. Any such event would have a material adverse impact on the health of the Iraqi population and the country's economy.

The non-oil sectors of the Iraqi economy face significant challenges.

In 2016, the non-oil sectors of the Iraqi economy, including financing services, social services, retail trade and transport, accounted for 66.2% of nominal GDP. The non-oil sectors were especially hard hit in recent years, contracting in real terms by 3.9 %, 9.6% and 8.1% in 2014, 2015 and 2016, respectively. The development of the non-oil sectors of the economy depends on the successful implementation of initiatives to encourage private sector activity, which faces substantial challenges as a result of security challenges and the increasing level of public debt borrowed domestically. See "*—Iraq faces significant security issues, notably in relation to Daesh, that affect its economy and stability and that require it to incur substantial costs*," "*—The Government and state-owned businesses account for a high proportion of the Iraqi economy*" and "*—Iraq must finance substantial budget deficits, and as a result has faced and will continue to face a significant increase in gross public debt levels and/or decrease in foreign exchange reserves*." A failure to grow the non-oil sectors of the Iraqi economy will constrain Iraq's economic growth and will leave Iraq dependent on its oil sector and exposed to the volatility of international oil prices.

Iraq faces significant economic development challenges that require substantial investments in infrastructure and institutions.

Iraq's public infrastructure has suffered from severe underinvestment, deferred maintenance and damage resulting from decades of war and sanctions and neglect under the former regime. These issues were exacerbated by damage caused by military actions that began in 2003, as well as the more recent war against Daesh. Iraq's infrastructure needs include renovation and construction of electric power plants and transmission and distribution systems, rebuilding roads and other transportation facilities, renovating airports and ports, investing in new and renovated public buildings, restoring and increasing the housing stock, and improving water treatment and distribution networks.

Iraq's public health infrastructure, including health facilities, the deployment of trained medical personnel, and water and sewage plants, deteriorated significantly during the period in which sanctions were imposed on Iraq, and suffered further as a result of the insurgencies and military conflicts that Iraq has faced in the past decades. The Federal Government's efforts to improve this infrastructure have led to uneven progress, and the security situation has discouraged private sector investment in this sector. The public health system remains under significant strain resulting from the large population of Iraqi and non-Iraqi displaced persons.

Addressing Iraq's infrastructure needs will require substantial investments over many years, or even decades. Iraq's ability to make such investments is hindered by low oil prices, bureaucracy and the risks associated with the current security situation. If Iraq is unable to address its infrastructure requirements in the coming years, economic growth is likely to suffer, which in turn may impact the security situation.

Iraq suffers from severe electricity shortages.

In spite of the abundant energy resources in the country and increased investment in the power sector in recent years, lack of reliable electricity supply remains a serious impediment to Iraq's economic growth and development. Although the production capacity of electricity in Iraq has increased significantly from approximately 2,974 MW in 2003, to 6,414 MW in 2012 and currently ranges between 10,000 and 12,000 MW, this remains significantly below Iraq's electricity needs, which are estimated to be about 24,000 MW, especially during periods of increased demand. The majority of the distribution infrastructure in Iraq is old or does not cover the increased production, and therefore requires substantial renovation to bring it to a state of optimal functioning, with there being only limited distribution infrastructure in southern Iraq. The security situation in Iraq has also exacerbated the condition of electricity infrastructure with transmission lines being targets for Daesh insurgents. Several thermal, hydroelectric, and gas-fired power stations in some provinces such as Salah Al-Din, Nineveh, Anbar and Kirkuk, have been forced to shut down, or were left uncompleted, due to heavy fighting, though the Federal Government is developing plans to repair or complete some of these.

As a result of the poor state of electricity infrastructure, many Iraqi homes and businesses use private diesel generators, which require expensive imports of diesel fuel, and present significant health, safety and environmental risks. In addition, many homes and businesses have connected to the power grid without authorization, resulting in sub-standard (and often dangerous) electric lines crossing many neighborhoods. Electricity prices are heavily subsidized, and many electric power customers do not pay for the limited service they receive. The lack of electric power capacity has also become a political issue, as many Iraqi citizens perceive the lack of improvement to be a significant failure of the Federal Government, without recognizing the complexity of the issue. Electricity shortages during the summer of 2015 were one of the triggers for large-scale protests that prompted the August 2015 Government reforms. See "*Description of the Republic of Iraq—The Federal Government—The Executive Branch—The Council of Ministers—The August 2015 Al-Abadi Government Reforms*."

The Federal Government has identified the improvement of electricity generation and distribution infrastructure as a critical element in fostering its economic growth and development objectives and has established an ambitious plan to ramp up electricity generation and revamp the transmission and distribution infrastructure in Iraq and also to open up the sector to private investment. See "*The Economy—Principal Sectors of The Economy —Electricity*." Implementation of this plan has to this date proven to be challenging, especially given that the Federal Government has failed to take any concrete steps to end problems with the electricity sector and, notwithstanding a recently introduced plan to improve tariff levels, was unable to increase electricity tariffs as previously planned due to strong public opposition. Failure to adequately address the significant deficiencies in Iraq's power generation and transmission and distribution infrastructure could lead to lower GDP growth, hampering the development of the economy.

Economic development in Iraq is hindered by bureaucracy, inefficiency and corruption.

Bureaucracy and corruption have been identified as significant problems for Iraq. Economic development is hindered by an inefficient bureaucracy and high levels of "red tape," which has a negative impact on the development of the private sector. Iraq is ranked 165 out of 190 in the World Bank's Doing Business 2017 Report. In 2015, Iraq ranked 156 out of 189 in the 2015 version of the Report. Starting and operating a simple business requires multiple steps, often involving unclear laws and regulations implemented by inexperienced public employees who are often overworked and perform their jobs with limited information technology capacity. The Iraqi company law makes establishing a company cumbersome, and subjects transactions such as capital increases, contributions in kind and borrowings to legal requirements and procedures that are unclear and unusual by international standards. The procedures for establishing and operating a publicly listed joint stock company are even more difficult to implement. For importers, delays in obtaining customs clearances and uncertain requirements can result in substantial costs and make it difficult to meet delivery schedules. In addition, the number of public holidays in each year is high in Iraq compared to other countries. During these holidays, the Federal Government often shuts down and there is a significant decline in economic activity. The inefficient bureaucracy leads to numerous opportunities for corruption, which impedes economic activity by parties who are unwilling to engage in corrupt behavior, particularly reputable foreign investors. In addition, many Federal Government officials are reluctant to make crucial decisions for fear of being accused of corruption.

Iraq's security situation, its war against Daesh, and its budget constraints have halted the full implementation of the set of reforms announced by the Federal Government in August 2015. Certain of the reforms have included audits by the BOSA of the so-called "phantom" employees and pensioners, with over 30,000 being discovered to have defrauded the system either by taking double pensions, or by taking both a pension and wages from the public sector. In addition, there are plans that are being implemented to reform the Federal Government banking sector by introducing more independence and corporate governance plans. Another set of reforms consists of the introduction of direct payments of salaries into bank accounts (currently most salaries are paid in cash) in most ministries. However, the political stalemate within Iraq has made it difficult to pass key legislation and many other proposed reforms have not been implemented.

Corruption is a significant issue in Iraq. Iraq is ranked 166 out of 176 in Transparency International's 2016 Corruption Perceptions Index. The problem of corruption is exacerbated by the fact that a significant amount of transactions are paid for in cash and are not well documented. There is limited availability of reliable IT systems, particularly in the public sector, and the use of technology and e-payment systems are also not widespread. A number of measures have been put in place to combat corruption, including the accession to the UN Convention against Corruption in 2008, the development of a National Anti-Corruption Strategy for 2010-2014 in cooperation with the United Nations Development Plan ("**UNDP**"), legislative amendments facilitating the prosecution of corruption charges, and mandatory financial disclosure for top Federal Government officials. See "*Description of the Republic of Iraq—The Federal Government—The Executive Branch—The Council of Ministers—The August 2015 Al-Abadi Government Reforms—Anti-Corruption Reforms*." Failure to effectively tackle the prevalence of corruption both in the public and private sector would have a material adverse effect on the Iraqi economy.

In August 2015, the Council of Ministers proposed the adoption of several anti-corruption measures including providing for the appointment of senior officials based on professional rather than sectarian standards and instituting a committee to investigate current and prior corruption cases. The Council of Representatives approved these measures in a unanimous vote. See "*Description of the Republic of Iraq—The Federal Government—The Executive Branch—The Council of Ministers—The August 2015 Al-Abadi Government Reforms—Anti-Corruption Reforms*." However, these reforms are yet to be completely and adequately implemented, as a result of the Federal Government's focus having shifted to combatting Daesh and reducing the budget deficit. There can be no assurance that these reforms will be adequately implemented in the near future or that political and sectarian divisions and the security situation in Iraq will not continue to disrupt the implementation of these reforms.

While the Federal Government is committed to addressing inefficiencies and bureaucracy, and to combatting corruption, the resources available for these efforts are limited, and it will be a considerable challenge to achieve significant progress in the coming years.

The Government and state-owned businesses account for a high proportion of the Iraqi economy.

Iraq's economy is dominated by the public sector, which puts pressure on the country's public finances and hinders the development of the private sector. Federal Government and state-owned enterprises ("**SOEs**") employ approximately half of the country's labor force, and a significant share of the population is dependent on Federal Government employment for their income. Many SOEs rely on loans from state-owned banks Rasheed and Rafidain.

Public-sector absorption of nearly half of the country's workforce crowds out private employment, diverts money away from, and, in turn, adversely impacts, the Federal Budget, and can have an inflationary impact on prices. Payroll, pensions and social welfare account for approximately 51% of total Federal Government's expenditures according to the 2017 Supplementary Budget. See "*Public Finance—The 2017 Supplementary Budget*."

The public sector is also approaching limits in its capacity to absorb new workers. According to the International Labor Organization ("**ILO**"), in 2014 there were approximately 300,000 new entrants into the labor force, 150,000 of whom were hired by the public sector and 130,000 by the private sector. Moreover, public sector employees typically have short workdays, substantial amounts of paid vacation, subsidized housing and education, and generous retirement benefits, all of which result in significant costs to the Federal Budget. The Federal Government has indicated its intention to take measures to develop the private sector, including by extending credit, improving the business environment for the benefit of domestic and foreign investors, encouraging small and medium enterprises ("**SMEs**") and microfinance institutions, encouraging partnerships between the private and public sector

and reforming the tax regime, but it faces major challenges in its efforts to do so. In April 2014, the Federal Government adopted a Private Sector Development Strategy 2014-2030 ("**PSDS**"), designed to promote the development of the non-oil sector of the economy, and in 2015, the Council of Representatives approved the new Labor Code (which only covers the private sector) after long and extensive discussions. However, Iraq faces several critical challenges in implementing the PSDS and more generally in developing the country's private sector, including security issues, inadequate infrastructure, a limited population with business training and skills, a legal system that has a limited capacity to enforce business agreements, bureaucracy and inefficiency, and the impact of more than thirty years of war and economic isolation.

Should the Federal Government prove unable to foster the competitiveness of the private sector, this will have an adverse effect on economic growth and the ability of the Federal Government to raise revenues from sources other than oil exports.

The Iraqi banking sector is dominated by state-owned banks, the two largest of which may have negative shareholders' equity, and the privately owned banks are underdeveloped.

Iraq's banking system is dominated by state-owned banks, in particular Rasheed Bank, Rafidain Bank and Trade Bank of Iraq, which three banks are estimated to collectively hold approximately 82.3% of the deposits in Iraq as of December 31, 2016. These three state-owned banks play a disproportionate role in extensions of credit to SOEs and in transactions with the Federal Government. An international audit firm was retained in order to audit Rasheed Bank and Rafidain Bank. The audit has revealed that the largest bank, Rafidain Bank, may have had negative shareholders' equity as of December 31, 2014. Rafidain Bank and Rasheed Bank may have negative shareholders' equity currently. Audit reports with respect to the two banks' financial statements for the year ended December 31, 2014 are expected to be delivered by September 2017. The audit reports may be qualified.

The dominance of the state-owned banks and their close relationship with the Federal Government in an economy that is still dominated by the state sector have significantly limited the development of privately owned banks and their contribution to economic development.

In recent years, the state-owned banks have deployed a disproportionately high amount of loans as compared to private-sector banks, which is an indication that certain state-owned banks continue to implement risky lending practices. The CBI attributes the low level of loan-making by private-sector banks to the low creditworthiness of borrowers as well as the limited availability of sound collateral. The CBI has also attributed the low levels of credit in the economy to the limited availability of long-term funding sources for the banks. The privately owned banks are primarily engaged in currency trading and similar activities, and have limited ability to finance private investment projects. There are low levels of confidence in the privately owned banks in Iraq, which is evidenced by the low levels of deposits held by these banks. As a result of the weakness of the banking sector, there are low levels of lending to large investment projects in Iraq. Also, because of the high level of concentration in the banking sector, if any of the large state-owned banks were to experience liquidity difficulties, there could be severe adverse effects on the Iraqi financial system. See "*Monetary System—The Iraqi Banking System*." The Federal Government is making plans to restructure the banking sector, clean up the balance sheet of the state-owned banks and buffer their capital and reserves. This restructuring could require significant outlays by the Federal Government in order to improve the banks' capital adequacy ratios. Furthermore, if Iraq is unable to implement these reforms, the banking sector may be unable to adequately support other sectors of the economy, and this may have an adverse effect on the Iraqi economy.

The KRG has required a number of commercial banks to transfer deposits worth several trillions of IQD to the KRG without compensation. The KRG used the amount to finance budgetary spending. The CBI estimates that half of such deposits were at the Trade Bank of Iraq ("**TBI**"). The failure by the KRG to repay the amounts allegedly misappropriated has resulted in significant losses to the commercial banks involved. Though the CBI is currently trying to resolve this issue, its efforts have thus far yielded few concrete results. See "*Monetary System—The Iraqi Banking System*."

Iraq's tax system is not sufficiently effective to provide the Federal Government with adequate and stable levels of revenues.

Iraq's ability to administer and collect taxes is not sufficiently effective to provide the Federal Government with adequate and stable levels of revenues. Iraq's Federal Budget is dependent on revenues generated from the country's oil and gas sector, which, in turn, exposes the country's fiscal condition to oil price volatility. Iraq's income tax rates are also relatively low. "Capital and Income Tax" and "Commodities Taxes and Production Fees" represented less than 10% of total Federal Government revenues in 2016, and 6.5% of total budgeted Federal Government revenues under the 2017 Supplementary Budget. See "*Public Finance—Public Accounts*" and "*Public Finance—The 2017 Supplementary Budget*." Weak tax administration impedes the Federal Government's ability to carry out effective, mid and long term budget planning. Moreover, businesses that seek to comply with tax laws and regulations often face a labyrinth of conflicting and counter intuitive interpretations, particularly with respect to international taxation issues. Although the Federal Government has, starting 2015, been introducing new sales taxes in the Federal Budget and announcing the implementation of customs duties in an effort to generate new sources of non-oil revenues for the Federal Government and to diversify Federal Budget revenues away from oil, there can be no assurance that this will be effectively implemented or that the Federal Government will be successful in its tax collection efforts. See "*Public Finance—Iraqi Tax System*." Under the SBA, the IMF has encouraged Iraq to expand its tax collection and tax base, although the Federal Government has often been unable to implement suggested measures for political reasons. Should the Federal Government fail to take and effectively implement measures to improve tax collection, Iraq's public finances will remain substantially dependent on oil export volumes and world oil prices.

A significant portion of the Iraqi economy is unrecorded.

A significant portion of the Iraqi economy is comprised of an informal or shadow economy. The informal economy is essentially not taxed, resulting in a lack of revenue for the Federal Government. In addition, the size of the informal economy impacts the reliability of statistical information, including the understatement of GDP and the contribution to GDP of various sectors, affecting the accuracy of growth statistics. Likewise, the informal economy is not fully policed and regulated, giving rise to other issues such as a lack of compliance with employment laws and health and safety standards. Federal Government efforts to address these issues are hindered by a number of factors, including cultural issues, a lack of resources for enforcement and the impact of the security situation in Iraq.

Iraq faces significant environmental issues.

Iraq's oil and gas sector consists of both upstream and downstream activities which include the production, processing, storage and shipping of oil, natural gas, petrochemicals and other hydrocarbons in various physical states. Hydrocarbons, by their nature, are often hazardous materials which have the potential to harm or damage property, production facilities, people and the environment. A disaster involving hydrocarbons, such as an oil spill, could have a material adverse effect on the country's finances, either from direct losses, such as the loss of export revenue, the loss of tax revenue or liability to third parties, or from indirect losses, such as unrecovered clean-up costs or unmitigated environmental damage.

Iraq has limited gas processing facilities, which means that a substantial amount of associated gas from the country's oil fields is flared into the atmosphere. See "*—Iraq's natural gas resources are not sufficiently developed, and Iraq flares significant quantities of natural gas, causing economic waste and pollution*." Flaring causes substantial damage to the economy, resulting in the loss of a large amount of the country's energy resources. It also causes significant environmental degradation, as flaring disperses fine soot particles and noxious gases into the atmosphere.

More generally, Iraq's industrial infrastructure is old and generally does not respect current international environmental standards. A significant portion of the gasoline produced in Iraq is of poor quality, with high sulfur content and, in some cases, lead additives. There are also limited resources available to clean up and remedy dangerous environmental conditions. Uncertain environmental conditions also present an obstacle to responsible foreign investment, as investors fear being held liable for pre-existing environmental conditions, as well as the reputational consequences of conducting operations that do not comply with international health, safety and environmental standards.

Iraq is vulnerable to climate change, and in recent years has experienced a high frequency and intensity of extreme weather events and rising environmental degradation. Iraq has begun to feel the onset of climate change, including the greenhouse effect, low precipitation levels, and rising annual temperatures, humidity and dust and sand storms. Population growth and urbanization have also put increased pressure on environmental resources, increasing the level of environmental degradation. Environmental degradation is manifest in the scarcity and pollution of water resources, air pollution, deterioration of biodiversity, and pollution of marine waters. Desertification is also a serious environmental challenge in Iraq, as affected areas expand due to climate change and intensive exploitation of resources. These environmental issues, coupled with passive and underdeveloped waste management systems, a lack of environmental awareness, and inadequate environmental monitoring systems in Iraq have resulted in considerable deterioration of the quality of the environment. In a 2013 report, the Ministry of Environment estimated the cost of environmental degradation in Iraq to be between 4.9% and 8% of GDP, and the cost of air pollution in the provinces of Baghdad, Babylon, Nineveh, Najaf, Kirkuk, Maysan, Sulaymaniyah, Dohouk and Erbil to be 1.5% of GDP, based on data collected in 2008.

The Federal Government has identified the protection and improvement of the environment and environmental sustainability as an important objective and has come up with a five-year action plan (see "*The Economy—Principal Sectors of the Economy—Environment*"), although there can be no assurance that these objectives will be realized. If Iraq fails to implement and maintain sustainable environmental policies, including measures to reduce gas flaring, this could have a material adverse effect on the Iraqi economy and on the health of the country's population.

The legal system in Iraq does not provide sufficient assurances as to the enforceability of legal rights.

Iraq's legal framework is evolving. Iraqi legislation is derived from various sources, including laws adopted as part of the command economy put in place before 2003, laws introduced by the Coalition Provisional Authority ("**CPA**") and laws promulgated by the Council of Representatives following the coming into force of the Federal Constitution. This patchwork structure has resulted in various legislative gaps and contradictory provisions, creating ambiguity and uncertainty for domestic and foreign investors. There is also a lack of transparency in relation to legal frameworks, with some legislation not being publicly available. Ambiguities also exist in relation to administrative law and the legal framework for interaction between the Federal Government and SOEs, on the one hand, and foreign and domestic investors, on the other hand. The Federal Constitution created a federal system with certain powers devolved to regional and provincial authorities, but is reliant on the passage of further implementing legislation to clarify the relationships between various governmental authorities. Much of these implementing regulations are yet to be passed, resulting in further legal uncertainty for investors.

Sophisticated, modern economic and commercial legislation has yet to be adopted in a number of significant areas, including in relation to the exploitation of Iraq's petroleum resources, security for finance transactions and the updating of company law. Moreover, courts and regulators have limited experience in dealing with economic and commercial legislation, resulting in uneven and uncertain application and enforcement.

Iraq's court system is understaffed and has been undergoing significant reforms. Judges and courts in Iraq are generally less experienced in the area of business and corporate law than is the case in many other jurisdictions.

The legal framework for investment is further hampered by the fact that Iraq is not a party to the New York Convention on the Enforcement and Recognition of Foreign Arbitral Awards, limiting the ability of investors to enforce foreign arbitral awards in Iraq.

The inadequacies of Iraq's legal framework for investment and the Iraqi judicial system may generally deter foreign and domestic investment in Iraq, and materially adversely affect its economic growth.

Iraq is subject to risks associated with foreign exchange and monetary policy.

Since 2003, the CBI has mainly pursued a fixed exchange rate policy, pegging the Iraqi dinar to the dollar (except from November 2006 until the end of 2008, when the CBI allowed the Iraqi dinar to gradually appreciate against the dollar). Since 2012, the CBI has pegged the Iraqi dinar at about IQD 1,166 to U.S.$1 until December 2015, but has since then allowed the Iraqi dinar to slightly depreciate against the dollar and to be pegged at IQD 1,182 to U.S.$1 in 2016, and at IQD 1,184 to U.S.$1 in 2017, in all cases through daily foreign exchange auctions. Although a fixed exchange rate has been effective in limiting inflationary expectations, it reduced foreign exchange reserves (which

declined from U.S.$84.1 billion as of December 31, 2013, to U.S.$44.7 billion as of December 31, 2016, before rising slightly to U.S.$46.5 billion as of June 30, 2017), and created distortions in the foreign exchange market. Despite efforts by Iraq, required under the IMF SBA, to ease access to foreign currency through official channels, the spread between official exchange rates and parallel market exchange rates equaled 5.1% (or 4.5% when commissions charged by the CBI are added to the official exchange rates) as of June 30, 2017. A divergence between market and official exchange rates encourages rent-seeking behavior and complicates the Federal Government's efforts to reduce corruption and combat money laundering, terrorism financing and other illicit monetary flows. Iraq's underdeveloped banking system limits the CBI's ability to deploy certain monetary policy tools—such as open market purchases and bank reserve requirements—in the pursuit of price stability and economic growth. Although Iraq has agreed with the IMF under the SMP to maintain the Iraqi dinar's peg to the U.S. dollar, there can be no guarantee that the CBI will not decide to change the level of the peg in the future, which could affect Iraq's foreign exchange reserves, inflation or inflationary expectations and/or have a material adverse effect on Iraq's economy.

Iraq may face inflationary pressures.

Although Iraq's inflation rate in recent years has been relatively low, with official inflation rates of just 1.4% in 2015 and 0.5% in 2016 (as measured by the percentage change in the yearly average consumer price index ("**CPI**")), actual inflation figures may be higher than is suggested by the official rates. Insurgent activities since 2014 have disrupted supply chains for goods, including food imports, which is likely leading to higher prices (though official confirmation of this trend is also impeded by the security issues, causing significant disruptions in data gathering in the regions). Although inflation is expected to remain relatively low in 2017 as a result of fiscal austerity prompted by lower oil prices, it may rise thereafter if higher oil revenues lead to a surge in the domestic demand for goods and services. Changes in monetary and/or fiscal policy, in particular a devaluation of the Iraqi dinar, may also result in higher rates of inflation. Sustained high inflation could lead to market instability, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could have a material adverse effect on Iraq's economy.

Risk Factors Relating to an Investment in the Notes

The Notes may receive unsolicited ratings, which may have a material adverse effect on the price of the Notes.

Iraq has solicited ratings for the Notes from S&P and Fitch. There can be no assurance that other rating agencies will not publish unsolicited ratings of the Notes, and such ratings may be lower than the ratings assigned by S&P or Fitch. Any lower ratings may have a material adverse effect on the trading price of the Notes.

Investing in securities in emerging markets such as Iraq generally involves a higher degree of risk than more developed markets.

Investing in securities of issuers in emerging markets, such as Iraq, generally involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries, and carries risks that are not typically associated with investing in more mature markets. These risks include, but are not limited to, higher volatility and more limited liquidity in respect of the Notes, greater political risk, a narrow export base, budget deficits, lack of adequate infrastructure necessary to accelerate economic growth, and changes in the political and economic environment.

The Notes may be negatively affected by events in other markets, including those in the Middle East.

Economic distress, particularly in the emerging markets, may adversely affect prices of securities and the level of investment in other emerging market issuers as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Iraq, adversely affect the Iraqi economy or adversely affect the trading price of the Notes. Even if the Iraqi economy is relatively stable, economic distress in other emerging market countries could adversely affect the trading price of the Notes and the availability of foreign funding sources for the Federal Government. Adverse developments in other countries in the Middle East, in particular, may have a negative impact on Iraq if investors perceive risk that such developments will adversely affect Iraq or that similar adverse developments may occur in Iraq. Risks associated with the Middle East include political uncertainty, civil unrest

and conflict, corruption, acts of terrorism, and poor infrastructure. Investors' perceptions of certain risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Iraq, including elements of the information provided in this Prospectus. See "*—The statistical information published by Iraq may differ from that produced by other sources and may be unreliable.*"

It may be difficult to enforce judgments obtained in foreign jurisdictions based on Iraq's sovereign immunity.

Iraq is a sovereign state. There is a risk that, notwithstanding Iraq's agreement to waive the defense of sovereign immunity in certain circumstances in connection with the Notes, a claimant will not be able to enforce a court judgment against certain assets of Iraq (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without Iraq having specifically consented to such enforcement at the time when the enforcement is sought.

In addition, assets owned by the Iraqi state and its state enterprises (which continue to play a significant role in the Iraqi economy, particularly the various state petroleum companies) are statutorily exempt from court enforcement procedures within Iraq. It is possible that the Iraqi courts would consider such exemption to apply, notwithstanding any waiver of sovereign immunity made by Iraq in connection with the Notes. Iraq has not waived any immunity (a) from attachment prior to judgment and attachment in aid of execution; (b) with respect to claims or actions brought against it under U.S. federal securities laws or any state securities laws; and (c) in respect of present or future property: (i) used by a diplomatic or consular mission of Iraq; (ii) of a military character and under control of a military authority or defense agency; (iii) dedicated to a public or governmental use (as distinct from property which is for the time being in use for a commercial activity within the meaning of the Foreign Sovereign Immunities Act); or (iv) that is an "antiquity" or "heritage material," as such terms are defined under Law No. 55 of 2002 for the Antiquities and Heritage of Iraq. For the avoidance of doubt, it is understood that the waiver of immunity relates only to the Republic of Iraq and not to any agency or instrumentality of the Republic of Iraq, including the CBI.

It may not be possible to effect service of process against Iraq in courts outside Iraq or in a jurisdiction to which Iraq has not explicitly submitted, and the choice of jurisdiction of a foreign court (including courts in New York) in contractual agreements may be held to be invalid by an Iraqi court. In addition, courts in Iraq will not enforce a judgment obtained in a foreign court unless such enforcement is provided for by a treaty ratified by Iraq and such foreign country providing for reciprocal enforcement of judgments, or if such country is named in regulations issued by Iraq. In any event, enforcement is subject to a requirement of reciprocity (that is, the courts of the relevant foreign country must enforce judgments issued by the Iraqi courts) and to the terms of the treaty with the relevant foreign country, and must comply with stringent requirements of Iraqi law. These requirements give Iraqi courts wide discretion to decline enforcement of the foreign judgment and require re-litigation in Iraq, whether on procedural grounds, grounds of public policy or for other reasons. Iraq has no treaty with the United States for the reciprocal enforcement of foreign judgments. The United States is not named in regulations issued by Iraq in connection with the enforcement of foreign judgments. See "*Service of Process and Enforcement of Civil Liabilities.*"

The Notes contain a "collective action clause" under which the terms of the Notes may be amended, modified or waived without the consent of all the holders of the Notes.

The Notes contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly referred to as "collective action clauses." Under these provisions, certain key provisions of the Notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of Iraq and the specified majority of noteholders. Each such amendment will be binding on all noteholders, whether or not they voted in favor of such amendment or at all.

The provisions of the "collective action clause" permit "cross-series modifications" to be made to one or more series of debt securities issued by Iraq (provided that those debt securities also contain a cross-series modification provision), including the Notes. In the case of certain cross-series modifications, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series, provided that a lower defined majority of noteholders of each affected series of notes approve the relevant amendment. However, in certain cases (referred to as uniformly applicable cross-series modifications) no specific approval of the noteholders of each series is required. See "*Description of the Notes—Meetings, Amendments and Waivers—Collective Action.*"

There is a risk, therefore, that the terms of the notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favor of an amendment, modification or waiver may be holders of different debt securities and as such, less than 75% of the noteholders would have voted in favor of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default (as defined in the Description of the Notes) or in a distress situation. Further, any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

The terms and conditions of the Notes restrict the ability of an individual holder to declare an event of default, and permit a majority of holders to rescind a declaration of such a default.

The Notes contain a provision which, if an event of default occurs under the Notes, allows the holders of at least 25% in aggregate nominal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to Iraq, whereupon the Notes shall become immediately due and payable, at their nominal amount with accrued interest, without further action or formality.

The terms and conditions of the Notes also contain a provision permitting the holders of at least 50%, in aggregate nominal amount of the outstanding Notes to notify Iraq to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. Iraq shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

An active trading market for the Notes may not develop and any trading market that does develop may be volatile.

The Notes have no established trading market. While application has been made to list the Notes on the Official List of the Exchange, and any one or more of the Managers may make a market in the Notes, they are not obligated to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes, or, if a secondary market therein does develop, that it will continue or be liquid, which may have a severely adverse effect on the market value of the Notes.

The market for the Notes will be influenced by economic and market conditions in Iraq and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. There can be no assurance that events in Iraq, in the region or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the political, economic or financial condition of Iraq or other factors. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

A Financial Transaction Tax is being considered which could affect future transactions in the Notes.

The European Commission has published a proposal (the "**European Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The European Commission's Proposal has very broad scope and could, if introduced in its published form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the European Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

The Notes may be issued at a discount to their stated principal amount.

The Notes may be issued with OID for U.S. federal income tax purposes. The Notes are considered to be issued with OID if the stated principal amount of the Notes exceeds the issue price of the Notes by an amount that is equal to or more than a statutorily defined *de minimis* amount. Certain holders of Notes may be required to include such OID in gross income on a constant yield to maturity basis, in advance of the receipt of cash attributable to such income (regardless of such holder's method of accounting for U.S. federal income tax purposes). See "*Taxation—United States Federal Income Tax Considerations*."

In certain cases, New York courts have held, based on principles of equity, that upon acceleration of a debt obligation, a creditor is entitled to recover any accrued or earned interest on the obligation, but a creditor is not entitled to recover interest that is unearned at the time of acceleration. The Notes are governed by New York law. Therefore, although the Notes will provide that the principal amount of the Notes will be due and payable upon an acceleration of their maturity, holders of the Notes bear the risk that upon such an acceleration, they may be unable to collect a portion of the difference between the principal amount of the Notes and the issue price if a court applying New York law deems such portion to be unearned interest.

USE OF PROCEEDS

The proceeds of the issuance of the Notes (before the deduction of underwriting commissions in connection with the issuance of the Notes) are expected to amount to U.S.$1 billion. The Federal Government intends to use the net proceeds for its general budgetary purposes in accordance with the 2017 Federal Budget Law and the 2017 Supplementary Budget (upon it being signed into law by the President of Iraq and published in the Official Gazette of Iraq). Please see "*Public Finance—Federal Expenditures*," "*—2017 Federal Budget*," and "*—The 2017 Supplementary Budget*."

DESCRIPTION OF THE REPUBLIC OF IRAQ

History

The Republic of Iraq has a cultural history spanning over ten thousand years. Known in classical antiquity as Mesopotamia, and often referred to as "the cradle of civilization," Iraq witnessed the emergence of the earliest known non-nomadic agrarian societies. The convergence of the Tigris and Euphrates rivers produced rich fertile soil and a supply of water for irrigation, creating an ideal environment for stability and growth.

Few countries can boast a cultural and historical heritage as rich as Iraq's. Ancient Mesopotamia, situated within the so-called "Fertile Crescent," passed through the hands of the Sumerian, Akkadian, Assyrian and Babylonian empires, and was later conquered by various foreign invaders including the Achaemenid, Seleucid, Parthian and Sassanian empires. In the 7th century, Iraq became a part of the Muslim Rashidun Caliphate and later became a center of the Islamic Golden Age during the medieval Abbasid Caliphate.

Following a series of invasions and conquests by the Mongols and Turks, Iraq fell under Ottoman rule in the 16th century, which lasted until the end of World War I, when the British Mandate of Mesopotamia was established by the League of Nations. A revolt broke out in 1920, resulting in the early termination of the original mandate plan in favor of a British administered semi-independent kingdom, under the Hashemite King Feisal I. In 1932, the kingdom was officially granted full independence.

In 1945, Iraq joined the UN and became a founding member of the Arab League. In 1958, the monarchy was overthrown in a military *coup d'état* known as the July 14 Revolution. The new government proclaimed Iraq to be a republic and established friendly relations with the Soviet Union. In 1961, the Kurdistan Democratic Party (the "**KDP**") led by Mustafa Barzani, sought to establish an autonomous Kurdish region in northern Iraq, resulting in the First Kurdish-Iraqi War, which broke out in 1961 and lasted until 1970.

Iraqi leader Abd al-Karim Qasim was overthrown in February 1963, when the Ba'ath Party, in coalition with army units and other pan-Arabist groups, took power. Colonel Abdul Salam Arif, a member of the Arab Socialist Union and former leader of the Iraqi Revolutionary Command Council, was elected President of Iraq. However, in the Fall of 1963, the Ba'ath Party attempted to depose Arif. The plot was unveiled and resulted in the removal of the Ba'ath Party from power, with power remaining with Abdul Salam Arif.

On April 13, 1966, President Arif died in a plane crash, and was succeeded by his brother General Abdul Rahman Arif. The new President sent Iraqi troops to fight in the June 1967 Arab-Israeli War, which ended in the defeat of the Arab armies, weakened the Iraqi government and revived the Ba'ath Party's aspirations to retake power in Iraq. The goal was effectively achieved in July 1968, and Ahmed Hassan al-Bakr became President and Chairman of the Revolutionary Command Council.

The Ba'ath government started a campaign to end Kurdish insurrection, which stalled in 1969 amidst increasing tensions with Iran and Soviet pressure on the Iraqis to come to terms with Barzani. A peace plan was announced in March 1970, providing for broader Kurdish autonomy and giving the Kurds representation in government bodies, to be implemented over four years. In the following years, the Baghdad government concluded a treaty of friendship with the Soviet Union, signed in April 1972, and also ended its isolation within the Arab world. However, by March 1974, the peace plan for Kurdish autonomy had failed to be implemented and the situation in the north escalated again into the Second Kurdish-Iraqi War, which lasted until March 1975, when an agreement was reached between Iraq and Iran (known as the Algiers Accord) and ended with the reestablishment of Iraqi government control over Kurdistan, the considerable reduction of the fighting capabilities of the Kurdish security force, the Peshmerga, and the exile of the Iraqi KDP leadership.

In July 1979, President Ahmed Hassan al-Bakr was forced to resign by Saddam Hussein, who had already become the *de facto* leader of Iraq. Saddam Hussein assumed the offices of both President and Chairman of the Revolutionary Command Council, and continued to preside over Iraq until he was deposed in 2003.

Saddam Hussein's era witnessed two major military disputes. The first was the eight-year Iran-Iraq War (1980-1988), which came at a great cost in lives and economic damage. The hostilities, which left behind hundreds of thousands of casualties on both sides and a total economic loss estimated at one trillion dollars, concluded with

the *status quo ante bellum* in August 1988, a month after the adoption of UN Security Council Resolution 598, a UN-brokered ceasefire that was eventually accepted by both sides.

During the final stages of the Iran-Iraq War, the Ba'athist regime launched a series of attacks that targeted the Kurdish population of northern Iraq in what is known as the *Al-Anfal* Campaign. Seven of the eight stages of the Anfal operation targeted areas controlled by Jalal Talabani's Patriotic Union of Kurdistan, while the KDP-controlled areas in the northwest of Iraqi Kurdistan were the target of the final Anfal operation in late August and early September 1988. A few months prior to that, in March 1988, a poison gas attack on the city of Halabja killed approximately five thousand Kurdish people, most of whom were civilians, in what is known as the "Halabja Massacre," recognized as an act of genocide by the Iraqi High Criminal Court in a decision that was rendered 22 years after the act.

The second major military dispute of the Saddam Hussein era began on August 2, 1990, when Iraq invaded Kuwait in an act closely linked to Kuwait's reluctance to forgive its financial debt to Iraq relating to the Iran-Iraq War, as well as allegations that Kuwait was slant-drilling across the international border into Iraq's Rumaila field. The State of Kuwait was annexed, and Saddam Hussein announced a few days later that Kuwait was the 19th province of Iraq.

The international community quickly reacted to Iraq's invasion of Kuwait. On August 2, 1990, the UN Security Council passed Resolution 660 condemning the Iraqi invasion and demanding Iraq's immediate and unconditional withdrawal from Kuwait. Four days later, the UN Security Council adopted Resolution 661, which imposed economic sanctions on Iraq, consisting mainly of a full trade embargo (excluding medical supplies, food and other items of humanitarian necessity as determined by the Security Council sanctions committee).

When Iraq failed to comply with UN Security Council Resolution 678, which had demanded complete withdrawal of the Iraqi forces occupying Kuwait by no later than January 15, 1991, the first Gulf War ensued on January 17, 1991, lasting until February 28, 1991. The war, which was waged by multinational forces from 34 nations led by the United States, resulted in the withdrawal of the Iraqi troops from Kuwait, the restoration of the Kuwaiti monarchy, heavy Iraqi casualties and the destruction of Iraqi infrastructure.

Soon after the end of the first Gulf War, anti-government revolts broke out in Shia-dominated southern Iraq and, shortly afterwards, in the Kurdish populated northern Iraq. These March and April 1991 uprisings consisted of a series of popular rebellions that were fueled by the perception that Saddam Hussein was responsible for systematic social repression and had become vulnerable to regime change as a result of the outcome of the Iran-Iraq War and the invasion of Kuwait which had both, within a single decade, devastated the economy and population of Iraq. Following initial victories of the rebel forces in the first two weeks, the uprising was soon held back from continued success by the lack of anticipated foreign support and the Ba'ath regime's success in maintaining control over Baghdad and suppressing the rebellions in a brutal campaign that used massive and indiscriminate power. It is estimated that tens of thousands of people were killed during the few weeks of unrest and the months that followed, and nearly two million Iraqis were displaced. In the aftermath, the Kurdish opposition established the Kurdish Autonomous Republic after the central government withdrew its forces and administrative staff from the north of the country. In October 1991, the Gulf War Coalition imposed Iraqi no-fly zones over northern and southern Iraq.

Economic sanctions pursuant to UN Security Council Resolution 687, which linked the end of sanctions to the removal of weapons of mass destruction from Iraq, continued to be enforced despite the end of the first Gulf War and the Iraqi withdrawal from Kuwait. As a result, hyperinflation, increased poverty and malnutrition contributed to a humanitarian crisis in Iraq from 1991 until 2003, despite the institution in 1995 of an oil-for-food program aimed at relaxing the effects of the sanctions amidst increasing hardships being suffered by the Iraqi population. The program would allow Iraq to sell oil on the world market in exchange for food, medicine, and other humanitarian needs for ordinary Iraqi citizens, without allowing Iraq to boost its military capabilities. However, the program lacked sufficient oversight, allowing the government to extract illegal commissions in exchange for allocations of oil sold at a discount to market prices, effectively diverting oil-for-food proceeds for its own purposes.

Beginning in late 2001, the United States urged the UN to take military action against Iraq, stressing that Iraq had repeatedly violated 16 UN Security Council resolutions, and claiming that Iraq had hidden capabilities to produce weapons of mass destruction. After an inconclusive report by the UN Monitoring, Verification and Inspection Commission, charged by the UN Security Council to verify Iraq's compliance with its obligation to be rid of its weapons of mass destruction, the UN Security Council on November 8, 2002 unanimously passed Resolution 1441,

offering Iraq "a final opportunity to comply with its disarmament obligations" that had been set out in previous resolutions.

On March 19, 2003, a multinational force led by the United States and the United Kingdom commenced military action against Iraq. The multinational forces rapidly deposed the government. An occupation was subsequently established and run by the U.S.-managed CPA. In November 2003, the CPA announced plans to turn over control of the country to an interim Iraqi government. The transfer of control took place on June 28, 2004 with the establishment of an interim government and the entry into force of a new transitional constitution (the Law of Administration for the State of Iraq for the Transitional Period, also known as the Transitional Administrative Law). The Transitional Administrative Law called for the creation of an elected National Assembly no later than January 2005.

On May 23, 2003, the UN Security Council unanimously approved a resolution lifting all economic sanctions against Iraq. Saddam Hussein, who had disappeared in April 2003, was captured on December 13 of the same year. Following a series of trials, he was executed three years later, on December 30, 2006.

Legislative elections were held on January 30, 2005, creating the Iraqi National Assembly and resulting in the formation of the Iraqi transitional government, which replaced the Iraqi interim government. The elected assembly was mainly empowered with the mission of drafting a permanent Federal Constitution, to be ratified in a national referendum. The ratification process required a majority of the national vote and was able to be blocked by a two thirds "no" vote in each of at least three of the eighteen Iraqi governorates. In the referendum that took place on October 15, 2005, 79% of the voters voted in favor of the new Federal Constitution, with only two governorates vetoing it. The Federal Constitution was therefore ratified and adopted.

Elections for a new Iraqi National Assembly (a permanent 275-member Iraqi Council of Representatives) were held under the new Federal Constitution on December 15, 2005, and resulted in the nomination of Ibrahim al-Jaafari to be Iraq's first full-term post-war Prime Minister. However, his nomination was not confirmed, and negotiations for the formation of a government subsequently lasted for several months. At the end of this process, a coalition government of "national unity" was formed under the leadership of then-Prime Minister Nouri al-Maliki, with Jalal Talabani as President.

The second parliamentary elections, which were held on March 7, 2010, resulted in the formation of a new government on November 11, 2010, after difficult negotiations. Talabani remained as President and al-Maliki continued as Prime Minister.

The period between 2003 and the withdrawal of the multinational forces in 2011 witnessed extreme levels of violence as a result of the invasion, armed resistance against the multinational force, and sectarian conflict. Areas in and around Baghdad, Mosul, Tikrit, Fallujah, Najaf and Basrah, as well as other areas, saw major attacks and fierce battles involving the occupation forces and various insurgent groups. These led to extensive casualties on both sides, as well as damage to the country's infrastructure. While the number of casualties is not known with certainty, it is estimated that they were in the tens of thousands.

Iraq experienced an increased level of ethnic and sectarian conflict between 2005 and 2007, largely in the Sunni-dominated areas of northern and western Iraq, as well as Baghdad. These conflicts were escalated in February 2006 when the al-Askari Mosque, one of the holiest sites of the Shia, was bombed. This intensified the sectarian strife, and the period witnessed a terrible series of suicide bombings, car and roadside bombings, arson, kidnappings and indiscriminate killings, often targeting civilians, holy sites and religious gatherings. Al-Qaeda, many of whose members came from outside Iraq, also carried out attacks during that period. The UNHCR and the Federal Government estimated that the number of IDPs within Iraq rose by about 50% following the conflicts that ensued from the 2006 bombing of the al-Askari Mosque.

The widespread violence in Iraq during this period prompted the announcement of a "surge" in U.S. forces in early 2007, which in turn led to increased fighting. In May 2007, the Council of Representatives requested the U.S. to set a timetable for the withdrawal of its forces.

Iraq and the United States negotiated a status of forces agreement in 2008. Pursuant to its terms, the U.S. ended its main military presence in Iraq in 2011, and the war was declared formally over in December of that year. On

April 30, 2014, new parliamentary elections were held. On July 24, 2014, Dr. Fuad Masum was elected as the new President of Iraq. He, in turn, nominated Dr. Haider al-Abadi as Prime Minister. The Council of Representatives approved Dr. al-Abadi's new Federal Government as well as its program on September 8, 2014. The next parliamentary elections are scheduled to take place in April 2018.

Violence has continued in the country, which progressively saw the rise of a militant group calling itself the Islamic State in Iraq and Syria (later adopting the name "the Islamic State" in late 2013 and early 2014, but commonly referred to in Arabic as "**Daesh**"). Daesh originated from a branch of al-Qaeda in the aftermath of the occupation of Iraq by multinational forces. The multinational forces were, however, able to contain the group's operations and on April 18, 2010, the two proclaimed leaders of the group (Abu Ayyub al-Masri and Abu Omar al-Baghdadi) were killed in a raid by the multinational forces near Tikrit. The new leader of the group (Abu Bakr al-Baghdadi) reformed the leadership of the group and in July 2012 declared the start of a new offensive in Iraq. The civil war in Syria provided an avenue for Daesh to expand from northern Iraq to Syria and to establish a large presence in areas of northern Syria. Daesh drew on support from Syrians in this region who were opposed to the Assad Government and were soon able to establish strongholds in many governorates in northern Syria, including the governorates of Ar-Raqqa, Idlib, Deir ez-Zor and Aleppo (though the Syrian Government succeeded in regaining full control of Aleppo in December 2016). Although al-Qaeda formally disavowed any relations with Daesh in February 2014 as a result of some tensions between the groups, Daesh continued to consolidate its support and influence in the northern regions in Iraq and Syria.

In June 2014, Daesh proclaimed itself to be a caliphate and began an offensive with the objective of taking over most of the territory in northern and western Iraq. Daesh captured significant territories in these regions, particularly in Anbar, Nineveh (where Daesh executed around 5,000 Yazidis after it captured the Sinjar District in August 2014) and Salah Al-Din governorates. Daesh also took control of Iraq's second largest city, Mosul, as well as the cities of Tikrit and Fallujah, close to Baghdad. It sought to occupy areas in the region of Iraqi Kurdistan and the Kirkuk governorate, where large oilfields are located, but its offensives there were largely repelled by aircraft from the multinational coalition, and Iraqi and Kurdish Peshmerga forces. Daesh attacks also severely damaged important infrastructure, including Iraq's largest refinery in Baiji, which resulted in the closure of the refinery, and the export pipeline running from Kirkuk to Turkey. Daesh also threatened several important dams, although its offensives there ultimately were repelled.

The conflict with Daesh has resulted in a large number of civilian casualties. According to the April 2017 UNAMI Report, between February 3, 2017 and April 3, 2017, at least 908 civilians were killed and at least 1,163 wounded, bringing the total number of civilian casualties in Iraq since the beginning of the armed conflict in January 2014 to at least 80,521 (28,023 killed and 52,498 wounded).

In addition to the large number of civilian casualties, there have been reports of abductions, rape and other forms of sexual and gender-based violence perpetrated against women and children, slavery and trafficking of women and children, forced recruitment of children, destruction or desecration of places of religious or cultural significance, wanton destruction and looting of property, and denial of fundamental freedoms. Daesh embarked on a social media campaign that has succeeded in attracting adherents from as far away as Europe, the United States and Australia. See "*Risk Factors—Risk Factors Relating to Iraq—Iraq faces significant security issues, notably in relation to Daesh, that affect its economy and stability and that require it to incur substantial costs*." Daesh has capitalized on the sectarian divisions in Iraq by presenting itself as striving to create an Islamic Sunni caliphate, and has from time to time been able to occupy and take control of parts of the country that were previous strongholds of al–Qaeda. Daesh influence in Iraq over the past decade has been largely limited to these same areas, which do not include Iraq's principal oil fields located in the South.

Since early 2015, the fight against Daesh has been stepped up by the Federal Government with help from the international community. In February 2015, the UN Security Council adopted Resolution 2199, aimed at preventing the financing of Daesh and other terrorist groups, and directing member states to prevent trade in oil and the flow of funds from private individuals. The military campaign against Daesh to recapture lost territory has also been intensified by the Iraqi forces, with the assistance of the Popular Mobilization Forces (*Al-Hashed Al-Shaabi*) and with air support from an international coalition led by the United States. Iraqi forces have succeeded in recapturing significant amounts of territory, including the cities of Tikrit, Ramadi and Fallujah. On October 16, 2016, Prime Minister Haider al-Abadi declared the beginning of the Battle for Mosul, a joint operation by Iraqi security forces, the Popular Mobilization Forces, the Kurdistan Peshmerga, and international forces to liberate Mosul, Daesh's last

major stronghold in Iraq. The Battle for Mosul constitutes the largest deployment of Iraqi troops since the 2003 invasion of Iraq. The operation succeeded in the liberation, on January 24, 2017, of eastern Mosul. On February 19, 2017 Prime Minister al-Abadi ordered the start of military operations to liberate western Mosul. With the support of the international forces, the Iraqi security forces made advances, liberating most of western Mosul and advancing on the last Daesh positions in Mosul's historic old city. As of April 25, 2017, a total of approximately 543,000 people had fled the fighting in Mosul and surrounding areas, 452,000 of whom are still in displacement, according to Federal Government figures.

Dr. al-Abadi's administration has been able to gather a considerable amount of international support in the fight against Daesh, including from Iran and GCC countries. In a statement issued on March 22, 2017 in Washington, D.C., the 73 members of the international counter-Daesh coalition commended their Iraqi partners, who had liberated more than 60 per cent. of territory previously held by Daesh. The coalition members committed to continued military support to defeat Daesh.

The total elimination of Daesh continues to be a top priority of the Federal Government. In achieving this objective, the Federal Government relies on the following three main pillars of security support: the Iraqi armed forces, the Popular Mobilization Forces (which are now part of Iraq's armed forces following the adoption of the Popular Mobilization Commission Law on December 19, 2016), and an international coalition led by the United States.

Although, until recently, Daesh controlled some territories in northern and western Iraq, mainly in the towns of Tal-afar, Huweijah and certain small towns and villages in Al-Anbar, and continued to carry out indiscriminate attacks in Baghdad and other cities, its ability to control areas has significantly declined in the last few months as a result of the advances made by the Iraqi forces especially in Mosul.

Internally Displaced Persons

Iraq faces large-scale internal displacement due to the on-going conflict situation. The Office of the UNHCR estimates that the number of IDPs has risen to approximately four million as of the end of March 2017. According to the Office of the UNHCR's data, the IDPs are spread across Iraq, including in 91 IDP camps.

Reports issued by the UNHCR indicate that there are significant concerns about restrictions on access to safety. Many IDPs are forced to return to their areas of origin due to the lack of absorption capacity in the areas where they are displaced. However, returnees are faced with much hardship including the destruction of property, contamination by explosive remnants, limited access to food, lost documentation, unsafe conditions due to the presence of militias, and lack of access to health services, clean water and education.

The problem of internal displacement has a significant impact on the Iraqi economy. Despite the international relief effort, significant public expenditures have been required to deal with IDPs, as well as refugees from neighboring countries. According to the Office of the UNHCR, as of April 30, 2017, with over 239,000 Syrian refugees, Iraq is the fourth largest hosting country in the region for people fleeing Syria, after Turkey, Lebanon and Jordan. Refugees—60% of whom are women and children—mostly reside in the north, including in the Kurdistan Region where they have been granted residency status including the right to work. This refugee inflow is adding to the already difficult internal humanitarian situation faced by the Iraqi Federal Government.

According to the April 2017 Iraq factsheet, the UNHCR had requested funding of approximately U.S.$557 million, but only obtained 8% thereof. In addition, the people who are internally displaced are often effectively excluded from economic activity, resulting in high levels of unemployment and dislocations, which brings about adverse social, health and environmental consequences.

Potential Iraqi Kurdistan Referendum on Right to Self-Determination

A referendum for Iraqi Kurdistan was planned to be held in 2014 amidst controversy and dispute between the KRG and the Federal Government. Longstanding calls for Kurdish independence gained impetus after Daesh expanded the territories in northern Iraq under their control during August 2014. The referendum was delayed on several occasions as Kurdish forces cooperated with the Iraqi Federal Government in the liberation of Mosul. In early April 2017, as the liberation of Mosul was progressing, the ruling political parties of Kurdistan (the KDP and PUK) announced their goal of holding a referendum on the Kurdish right of self-determination by the end of 2017. On

June 7, 2017 Kurdish President Masoud Barzani announced that the referendum, which will include the disputed territory of Kirkuk and three other areas which are disputed with the Federal Government (Makhmour, Shingal and Khanaqin), will take place on September 25, 2017. See "*Risk Factors—Risk Factors Relating to Iraq—The Iraqi political system is characterized by political divisions, which can impair the effectiveness of the Federal Government and lead to stalemates*."

Location and Population



With an area of 435,052 square kilometers, Iraq is ringed to the west by Syria and Jordan, to the south by Saudi Arabia and Kuwait, to the east by Iran, and to the north by Turkey. A very small sliver of the Arabian Gulf (approximately 58 square kilometers) abuts Iraq on its southeast border. The Tigris and Euphrates rivers run through the center of Iraq and flow from the northwest to the southeast. Iraq's natural resources include petroleum, natural gas, phosphates and sulfur.

Iraq is organized into the following 18 governorates. Iraq's capital city, Baghdad, is located in the center of the country, and the Baghdad governorate is home to approximately 21% of the total Iraqi population. The vast majority of three of the governorates - Erbil, Dohouk and Sulaymaniya (which were more recently joined by the city of Halabja) - constitute the Kurdistan region. The Federal Constitution allows other governorates to group together to create federal regions, but none have done so to date.

Governorate	Capital	Total area in square kilometers	Estimated population 2016
Anbar	Ramadi	137,808	1,755,459
Babylon	Hillah	5,119	2,045,771
Baghdad	Baghdad	4,555	8,095,645
Basrah	Basrah	19,070	2,894,591
Dhi-Qar	Nasiriyah	12,900	2,080,188
Diyala	Baqubah	17,685	1,622,106
Dohouk	Dohouk	6,553	1,285,040
Erbil	Erbil	15,074	1,846,646
Karbala	Karbala	5,034	1,210,568
Kirkuk	Kirkuk	9,679	1,588,463
Maysan	Amarah	16,072	1,106,212
Muthanna	Samawah	51,740	806,368
Najaf	Najaf	28,824	1,462,706
Nineveh	Mosul	37,323	3,702,215
Qadisiyah	Qadisiya	8,153	1,280,622
Salah Al-Din	Tikrit	24,363	1,579,662
Sulaymaniya	Sulaymaniya	17,023	2,153,288
Wasit	Kut	17,153	1,367,993
Territorial waters	N/A	924	N/A
Total	N/A	**435,052**	**37,883,543**

Source: Ministry of Planning.

Iraq's population was approximately 38 million people in 2016, with annual growth rates of approximately 2.5% in comparison to 2015, and 2.6% in comparison to 2010, and a density of 87 persons per square kilometer. The table below shows a breakdown of the Iraqi population by age and gender. According to the World Bank data, in 2015, the average life expectancy at birth in Iraq was approximately 70 years.

Iraq's Population

Age	Population (%)	Male	Female	Total Population
0-14	40.2	7,836,930	7,394,990	15,231,920
15-64	56.6	10,744,656	10,706,714	21,451,370
65 and over	3.2	557,778	642,475	1,200,253
Total	**100**	**19,139,364**	**18,744,179**	**37,883,543**

Source: Ministry of Planning.

Iraq has a diverse population, with Iraqi Arabs making up the majority of the population. Iraq's population also includes Kurds, Turkmen, Assyrians, Persians and others. The Federal Constitution recognizes both Arabic and Kurdish as the official languages of Iraq. Other languages spoken in the country include Turkmen, Persian and Aramaic.

Islam is constitutionally recognized as the official religion of the state. Muslims form the overwhelming majority of Iraq's total population. Iraq is also home to Christians, Yazidis, Madean Sabeans and others.

The Federal Constitution

Iraq's current Federal Constitution was approved on September 19, 2005 by the National Assembly elected in January of that year. The draft Federal Constitution was put to referendum on October 15, 2005, and was approved by approximately 79% of the voters. It was published in the Official Gazette on December 28, 2005 as the country's new permanent Federal Constitution.

Iraq's Federal Constitution consists of a preamble reaffirming Iraq's commitment to the institution of a "nation of law," "free from sectarianism, racism, regionalism, discrimination and exclusion" and characterized by strong "national unity" amongst the multiple components of the Iraqi society, and six sections:

- Section One: Fundamental Principles;
- Section Two: Rights and Liberties;
- Section Three: Federal Powers;
- Section Four: Powers of the Federal Government;
- Section Five: Powers of the Regions; and
- Section Six: Final and Transitional Provisions.

Article 1 of the Federal Constitution provides that the Republic of Iraq is a single federal, independent and fully sovereign state in which the system of government is republican, representative, parliamentary and democratic. Iraq is officially recognized as a country of multiple nationalities, religions and sects, and a founding and active member in the Arab League, committed to its charter. The Federal Constitution states that Islam is the official religion of the state and a foundational source of legislation, and that no law may be enacted that contradicts the established tenets of Islam, the principles of democracy or the rights and basic freedoms stipulated in the Federal Constitution. The Federal Constitution further guarantees full rights to freedom of religious belief and practice of all individuals (including Christians, Yazidis, and Mandean Sabeans). While Arabic and Kurdish are recognized as the two official languages of the state, the Federal Constitution also guarantees the right of Iraqis to educate their children in their mother tongue (*e.g.*, Turkmen, Syriac, and Armenian) in government educational institutions, or in any other language in private educational institutions.

The Federal Constitution reiterates the basic principles of democracy by, among other things, establishing the people as the source of power and legitimacy (which they shall exercise in a direct, general and secret ballot), the submission of the armed forces to civil authority, the prohibition of the formation of militias outside the framework of the formal armed forces, the prohibition of torture, the independence of the judicial system, freedom of expression, freedom of movement, and the importance of civil society organizations.

The Federal Constitution forms the preeminent and supreme law in Iraq. According to its Article 13, the Federal Constitution is binding in all parts of Iraq without exception: no law that contradicts it may be enacted, and any text in any regional constitutions or any other legal text that contradicts it shall be considered void.

The Political System

The Federal Constitution identifies the matters in which the Federal Government has exclusive authorities, as well as those in which competencies are shared between federal authorities and regional authorities.

Division of Powers between the Federal and Regional Governments

Exclusive Powers of the Federal Government

The Federal Government has exclusive power over the following matters:

- foreign policy and diplomatic representation;
- international treaties and agreements;
- national security;
- debt policies and foreign sovereign economic and trade policy;
- fiscal and customs policy;
- currency;
- the national budget of the State, and general and investment budget bill;
- monetary policy;
- administration of the Central Bank;
- inter-regional and inter-governorate trade policy;
- citizenship, naturalization, residency and general population statistics and census;
- policies relating to water sources from outside Iraq and their flow into Iraq; and
- standards and weights, policies of broadcast frequencies and the mail service.

Powers Shared Between Federal and Regional Authorities

The Federal Government shares powers with regional authorities over the following matters:

- regional customs;
- electrical power;
- environmental policy;
- public planning;
- public health and education; and
- internal water resources policies, in a way that guarantees their just distribution.

Powers of Regional and Governorate Authorities

Article 115 of the Federal Constitution provides that all powers that are not within the exclusive authority of the Federal Government belong to the regions and the governorates that are not organized in regions. With respect to powers shared between the Federal Government and regional authorities, priority is given to the regions and the governorates that are not organized in regions.

According to Article 121 of the Federal Constitution, federal regions (which currently include only the Kurdistan region) may exercise executive, legislative and judicial powers in areas that are not within the exclusive authorities of the Federal Government. In cases of conflict between regional and federal laws in areas that are not exclusively

within the authorities of the Federal Government, regional authorities have the right to amend the application of federal law within their regions.

Oil and Gas Resources

Article 111 of the Federal Constitution provides that oil and gas is the property of all the Iraqi people in all regions and governorates. The Federal Constitution further provides that the Federal Government, together with the producing governorates and regional governments, undertake the management of oil and gas extracted from present fields (which means at a minimum fields that were in operation when the Federal Constitution was adopted), provided that revenues are to be distributed in a fair manner in proportion to the population distribution in all parts of the country, with additional compensation for damaged regions, all in accordance with law. The Federal Constitution further provides that the Federal Government, with the producing regional and governorate authorities, will formulate the necessary strategic policies to develop all oil and gas wealth in a way that achieves the highest benefit for the Iraqi people using the most advanced techniques and with the aim of encouraging investments.

The Federal Government

The Federal Government is composed of the legislative, executive, and judicial branches, which exercise their competencies on the basis of the principle of separation of powers.

The Legislative Branch

Legislative authority is vested in two bodies: the Council of Representatives and the (as yet unestablished) Federation Council.

The Council of Representatives is the main elected body of Iraq. Pursuant to the Federal Constitution, it consists of a number of members at a ratio of one seat per 100,000 Iraqi persons, representing the entire Iraqi people. The members are elected for a four-year term. The current Council of Representatives is composed of 328 seats.

The Council of Representatives passes federal laws, oversees the executive, ratifies treaties, and approves the nomination of specified officials (including members of the Federal Court of Cassation, the Chief Public Prosecutor, the President of the Judicial Oversight Commission, the Army Chief of Staff and his assistants, and the director of the intelligence service). It elects the President of the Republic, who in turn selects a Prime Minister from the majority coalition in the Council of Representatives.

An absolute majority of the members of the Council of Representatives must be present for quorum to be satisfied. Decisions are made if approved by a simple majority of those present, unless otherwise stipulated.

The Council of Representatives may withdraw confidence from the Prime Minister based on a request filed by one-fifth of its members and approved by an absolute majority of its members.

The Federal Constitution also requires the establishment of a Federation Council, to include representatives from the regions and the governorates that are not organized into a region. The Federation Council is to be regulated by a law enacted by a two-thirds majority of the Council of Representatives. The Federation Council has not yet come into existence.

The Executive Branch

The executive branch is composed of the President of the Republic, and the Council of Ministers.

The President

The President of Iraq is the Head of State, whose principal role is the safeguarding of the Federal Constitution and the preservation of Iraq's independence, sovereignty, unity and the safety of its territories, in accordance with the provisions of the Federal Constitution.

The President is elected by the Council of Representatives by a two-thirds majority, and is limited to two four-year terms.

The President ratifies treaties and laws that have been approved by the Council of Representatives, issues special pardons on the recommendation of the Prime Minister, issues Presidential decrees, ratifies death sentences issued by the competent courts, and performs the duty of High Command of the armed forces for ceremonial and honorary purposes.

The current President of Iraq is Dr. Fuad Masum, who has been in office since July 2014.

The Council of Ministers

The Council of Ministers is composed of the Prime Minister and his cabinet. Pursuant to the Federal Constitution, the President appoints the nominee of the largest Council of Representatives bloc (whether an electoral or parliamentary bloc) to the position of Prime Minister. The designated Prime Minister must name the members of his cabinet within a period not to exceed 30 days from the date of his nomination. If he fails to do so, then the President is required to nominate another candidate. Once a nominee for Prime Minister names a proposed cabinet, the new Federal Government and its program must be approved by a majority of the members of the Council of Representatives.

The Prime Minister is the country's active executive authority responsible for the general policy of the State and the Commander in Chief of the armed forces. He directs the Council of Ministers, presides over its meetings, and has the right to dismiss the Ministers with the consent of the Council of Representatives.

The Council of Ministers is responsible for planning and executing the general policy of the State, overseeing the work of the respective ministries, proposing bills, issuing and implementing rules and regulations, preparing the draft Federal Budget, the closing account and the development plans, negotiating and signing international treaties, and recommending to the Council of Representatives the appointment of certain senior officials (including the Army Chief of Staff and his assistants, and the director of the intelligence service).

The responsibility of the Prime Minister and the members of his cabinet before the Council of Representatives is of a joint and personal nature.

Since August 2014, Dr. Haider al-Abadi has been the Prime Minister of Iraq.

<u>The 2014-2018 Government Program</u>

In September 2014, the newly appointed Council of Ministers led by Dr. al-Abadi introduced a long-term program (the "**Strategic Plan**") that sets out the guiding policy principles for the administration for 2014-2018. The Strategic Plan identified six key goals: (i) safety and security; (ii) higher standards of living; (iii) private sector development; (iv) increased oil and gas production (including via the increase of storage capacity, reduction of gas flaring, building new refineries and expansion of exports); (v) administrative and financial reform; and (vi) promotion of regional autonomy and decentralization via federal/local government reorganization.

In tandem with the Strategic Plan, the Council of Ministers also announced that it would adopt emergency programs to rapidly respond to the needs of IDPs who were affected by violence, prioritizing their repatriation and the rehabilitation of damaged areas.

The Federal Government started taking significant steps to implement the Strategic Plan. However, as a result of the expansion of Daesh and the sharp decline in world market oil prices, the Federal Government's top two priorities have, since 2014, been centered around combatting Daesh and addressing the budget deficit. While the Strategic Plan has been partially put on hold as a result of budgetary constraints, the Federal Government remains generally committed to achieving the objectives that were set out therein.

<u>The August 2015 Al-Abadi Government Reforms</u>

In response to a wave of protests critical of the quality of Federal Government services (particularly delivery of electricity during a severe heat wave) and levels of corruption, and to calls made by senior clerical figures, on August 9, 2015, the Iraqi Prime Minister submitted a first set of governmental reforms to the Council of Ministers, which gave its unanimous approval in an extraordinary session held on that day. The reforms, which relate to five different fields (administration, finance, economy, services and anti-corruption), were unanimously approved by the

Council of Representatives on August 11, 2015. Many of the measures were expressed in general terms and require further executive or legislative actions for their implementation. While only some of these measures have been adopted to date, the Federal Government remains committed to the reform process.

Administrative Reforms

Among the major reforms that have been adopted was the immediate elimination of the three vice president and three deputy prime minister posts, leading to the immediate dismissal of the persons occupying those positions at that time. The vice presidents' removal was, however, later deemed unconstitutional by the Federal Supreme Court.

In addition, the set of administrative reforms included (a) the creation of a professional committee to select candidates for high-level positions based on the criteria of integrity and qualification as opposed to political and sectarian affiliation; (b) the reduction of the number of public employees, advisers, bodyguards and other personnel at ministries and other public entities and government bodies to cut down on costs and increase overall efficiency; (c) the implementation and enforcement of monitoring and accountability procedures with respect to ministries and other public entities pursuant to evaluation programs; (d) reforms to the wages and benefits system; and (e) the granting of authority to the Prime Minister to dismiss provincial governors as well as heads and members of provincial and local councils in the event of malpractice, corruption or breach of the applicable laws. Most of these reforms have only been partially implemented due to other urgent priorities.

Financial Reforms

The plan included two major financial reforms. The first one was aimed at enhancing the State's revenues and reducing its expenditures through (a) implementation of a well-defined and easy to implement tax system that reduces tax evasion and widens the tax pool; and (b) the collection of custom duties in a fair manner at all borders (including the borders with the Kurdistan region). In addition, the Council of Ministers resolved to adopt actions against dumping to protect local industries and encourage local products. The second arm of the financial reforms seeks to reduce the cap on retirement income granted to public officials. Most of the financial reforms are yet to be implemented.

Economic Reforms

The plan also included measures aimed at stimulating investments and empowering the private sector, through IQD 5 trillion in loans to be allocated to the industrial, agricultural and housing sectors, as well as IQD 1 trillion in loans to be allocated to small enterprises. The plan also called for the payment of the amounts due to private sector companies, in order to facilitate their work and create new opportunities. These actions have only been partially implemented to date.

Services Reforms

With respect to services, the plan called for (a) the adoption of a set of measures designed to end problems with the electricity sector (production, transmission, distribution of electricity and collection of fees); and (b) the implementation of an efficient monitoring program able to detect failures and defects in the system of provision of services to the public. The full implementation of the set of services reforms is yet to occur.

Anti-Corruption Reforms

One of the major developments under the reform consisted of a set of policies and measures aimed at curbing corruption. These included establishing an Anti-corruption Council (to be chaired by the Prime Minister) for the investigation of current and prior corruption cases within a specific timeline, as well as providing for the appointment of senior officials based on professional rather than sectarian standards, and reinforcing the role of monitoring and supervisory authorities and subjecting them to continuous assessment through a set of performance indicators. This represented a long-awaited step, especially since anti-corruption strategies had become a priority of the Federal Government in Iraq in the last ten years. A number of measures had been put in place to combat corruption, including the adoption of the UN Convention against Corruption in 2008, the development of a National Anti-Corruption Strategy for 2010-2014 in cooperation with the UNDP, legislative amendments facilitating the prosecution of corruption charges, and mandatory financial disclosure for top Federal Government officials.

In 2012, Iraq was declared compliant with the Extractive Industries Transparency Initiative, which establishes a global "EITI Standard" to improve transparency and accountability in the governance of national oil, gas and mineral resources. The EITI Standard requires countries to disclose to the public information regarding tax payments, licenses, contracts and other payments made by oil, gas and mining companies to their governments. Iraq published its first report on oil revenues in 2012 setting forth detailed data on production, local consumption, bid rounds, oil export revenues, and national employment and industry share percentages. The Federal Government has hired an international auditing firm to audit the relevant figures and to publish the reports required by EITI.

The Federal Government continues to be committed to the objectives set out in the National Anti-Corruption Strategy. In doing so, the Government relies on many public functionaries and institutions including, in particular, the Board of Supreme Audit, the Commission on Integrity, and Inspectors General. In 2016, the Federal Government entered into a memorandum of understanding with the UNDP to assist it in its anti-corruption measures and to train Iraqis in investigations.

Parliamentary Reforms and Recent Developments

In addition to approving the Council of Ministers' reforms, the Council of Representatives, in the same session of August 11, 2015, adopted by resolution a "Parliamentary Reforms Paper" (the "**PRP**") which reiterates some of al-Abadi Government reforms while also seeking to introduce additional financial, administrative and anti-corruption reforms. The PRP called for (among other measures) the issuance of a law limiting the presidency to two terms; the initiation of formal investigations against and the prosecution of corrupt ministers and officials, including those responsible for the loss of territory, weapons and ammunitions to terrorist groups; the replacement of the heads of parliamentary committees who are proven to be incompetent or inactive; requesting the Supreme Judicial Council to submit a judicial reform plan aimed at securing the independence of the judiciary; the promulgation of a social insurance law; the adoption of practical measures aimed at addressing the crisis of refugees and IDPs; and the acceleration of the process applicable to the submission and adoption of draft laws that concern the provision of services to the Iraqi people. The PRP further directed the promulgation of the laws contemplated by the Federal Constitution, including in particular the Oil and Gas Law, the Political Parties Law, the Federal Supreme Court Law, the International Treaties Law, the Federal Council Law and the Pardon and National Reconciliation Laws. Only the Political Parties Law and the Pardon Law have been issued to date.

The PRP was adopted by parliamentary resolution, and not as a law. For this reason, the areas covered by the PRP require further action by Iraq's legislative, judicial and executive authorities.

2015-2017 and Difficulties in the Implementation of Reforms

Following the adoption in August 2015 of the Council of Ministers reforms and the PRP, and in an effort to start the process of curbing corruption and streamlining the work of the Federal Government, the Prime Minister announced the removal of eleven ministerial positions, reducing the size of the cabinet by a third. In turn, the Parliamentary Committee for Security and Defense called for former Prime Minister and ex-Vice President Nouri al-Maliki, and dozens of other senior officials, to stand trial for the loss of the northern city of Mosul to Daesh in 2014. Al-Maliki strongly rejected these accusations. Separately, the Prime Minister directed that military commanders accused of abandoning their posts in Ramadi to Daesh in 2015 should face court martial.

Moreover, as a continuation of its economic and political reform agenda, the Federal Government adopted certain measures, building on the reforms announced by the Prime Minister in August 2015. The measures fall under a more general plan that aims at improving the Federal Budget and increasing non-oil revenues by IQD 20 to 33 trillion annually in the medium to long term. The initial steps, started before July 2016, include administrative reforms (not requiring changes in laws), amendments to certain existing regulations and implementation of new taxes. The plan also calls for strengthening the role of the CoI.

As a result of the financial difficulties facing the Federal Government, as well as the SBA with the IMF (which has a large number of conditions, including ones that have some overlap with the economic reform plans of the Federal Government), the focus of the Federal Government has been on implementing the conditions of the SBA. In addition, though the economic reform plans of the Federal Government are proceeding slowly, the Prime Minister has established an economic reform unit within his office, whose task is to introduce and implement certain of the

key reforms. In particular, the said unit is focused on reforms designed to increase non-oil revenues, introduce reforms in the financial services sector and carry out additional reforms relating to anti-corruption.

The Board of Supreme Audit

The BOSA is the highest financial oversight institution with jurisdiction over the public sector in Iraq. It is an independent body governed by Law No. 31 of 2011. The President of the BOSA is appointed by an absolute majority of the Council of Representatives and must meet certain requirements in terms of ethics and level of education.

The BOSA's primary responsibility is to safeguard public funds from waste, squander and misappropriation, and to ensure their proper use. Its objectives also include developing the accounting and auditing professions and improving overall management and accountability in public institutions. To achieve these goals, the BOSA is tasked with conducting audits and reviews of the accounts and activities of public sector institutions. It verifies the proper disbursement of public funds, ensures compliance with the limits set forth in the Federal Budget and evaluates procedures for assessing estimates and collecting funds. The BOSA is required to provide a report on its activities at least annually to the Council of Representatives, and may publish such reports in the media.

The BOSA has been publishing annual reports since 2004, which summarize the results of its audit and review of the financials of various Federal Government ministries, agencies, governorates and public corporations. It also reports on the implementation of various financial management laws and regulations, and overall budget execution, as well as provides an analysis of the execution of various fiscal policies. Further, the BOSA specifically identifies problematic contracts within each spending unit, such as contracts that fail to comply with governing regulations.

In 2014, the BOSA reported that various Federal Government agencies and public corporations failed to submit their financials to the BOSA for it to conduct its audit activities. The 2014 report also noted that some Federal Government ministries and agencies did not address the BOSA's comments from prior reports, or failed to respond, in whole or in part, to inquiries from the BOSA. The BOSA also noted that many Federal Government departments submit financials that do not meet the BOSA's requirements. With respect to procurement, the BOSA reported inaccuracies in projected cost estimates, contract awards to unsuitable companies and the existence of various impediments to implementation at project work-sites. It also noted that several projects were withdrawn from contractors for various reasons, including long delays in implementation. The BOSA further renewed its objection to certain Council of Ministers' decisions granting exceptions from procurement laws and regulations on the basis that the exceptions were not justifiable.

The tasks of the BOSA have been expanded in 2014 to assist in combatting corruption. Further, certain of the reforms under the IMF SBA require that audits be conducted by the BOSA of the so-called "phantom" employees and pensioners. BOSA has carried out certain steps consistent with the requirements of the SBA and is scheduled to complete its audits in October 2017. So far, over 30,000 individuals were discovered to have defrauded the system either by taking double pensions, or by taking both a pension and wages from the public sector.

The Commission on Integrity

The Commission on Public Integrity was created pursuant to CPA Order No. 55 of 2004 – Delegation of Authority Regarding the Iraq Commission on Public Integrity. In 2005, with the adoption of Iraq's current Federal Constitution, the Commission on Public Integrity was renamed as the Commission on Integrity ("**CoI**"), and its status as an independent commission subject to monitoring by the Council of Representatives was maintained under Article 102 of the Federal Constitution.

Order No. 55 was replaced by Law No. 30 of 2011, which currently regulates the CoI and provides it with wide authority to enforce and promote anti-corruption rules. The CoI is an independent body that falls under the supervision of the Council of Representatives. The Commissioner of the CoI is chosen by a majority vote of the Council of Representatives and is subject to certain ethical and educational requirements.

The CoI is responsible for enforcing anti-corruption laws and public service standards. The CoI has jurisdiction to investigate corruption-related cases through its investigators under the supervision of specialized judges. A Directorate of Investigations within the CoI is primarily responsible for unveiling corruption in the Federal

Government and investigating such claims. The CoI runs a hotline for reporting financial and administrative corruption, and the Offices of Inspector Generals located in each ministry may also share information regarding potential code of conduct violations with the CoI. See "—*Inspectors General*."

The CoI has authority to propose anti-corruption rules and regulations to improve transparency and accountability, and to raise public awareness to promote personal integrity, ethical public service and accountability. It can also require Federal Government officials to provide certain financial disclosure, including regarding outside activities and investments, and significant donations or gifts that could lead to conflicts of interest. In May 2016, the CoI reported that, as of December 31, 2015 only 196 out of the 328 members of the Council of Representatives have submitted financial disclosure statements to the CoI for 2015.

The CoI Commissioner is required to report to the Council of Ministers and the Council of Representatives on the CoI's activities at least annually. It has made its reports for the years 2006-2016 publicly available through its website. It has also posted on the website the names of individuals indicted on corruption charges and terminated public sector employees.

As part of the SBA with the IMF, the Council of Ministers is considering draft amendments to the law for the CoI to bring it more in line with international standards and to provide it with more autonomy.

Inspectors General

CPA Order No. 57 - Iraqi Inspectors General, established within each Iraqi ministry an Office of Inspector General, headed by an Inspector General and competent to carry out investigations, audits, evaluations, inspections and other reviews in order to provide increased accountability, integrity and oversight of ministries and to prevent, deter and identify waste, fraud, abuse of authority and illegal acts.

Inspectors General are appointed by the Prime Minister, subject to confirmation by a majority vote of the Council of Representatives. The Offices of Inspectors General in each ministry are independent. Although they report to the relevant minister, they may share information regarding potential code of conduct violations with the CoI including cases involving allegations of misconduct by the relevant minister.

Inspectors General are authorized to request full and unrestricted access to all the data of a ministry and all relevant officers of the ministries. They may refer a matter for further civil, criminal or administrative action to the appropriate administrative and prosecutorial agencies and recommend non-binding remedial actions. The Offices of Inspectors General must cooperate fully with law enforcement agencies, including the CoI. The Inspectors General are required to issue an annual report that separately lists audit and review reports and other investigative or assistance efforts completed during the fiscal year.

The BOSA conducted a review of 32 Offices of Inspectors General for their performance over the years 2010-2012 and identified several instances of professional shortcomings and administrative inefficiencies, which were reported to each entity and to the Council of Ministers in February 2015 and noted in BOSA's annual report for 2014. There have been instances where Inspector Generals have been prohibited from carrying out their duties by various ministers.

The Regions and their Powers

Iraq's federal system is made up of a decentralized capital, regions, governorates/provinces and local administrations.

Regions

Under the Federal Constitution, any single governorate or group of governorates is entitled to request that it be recognized as a region, with such a request being made by either one-third of the council members of each of the relevant governorates or by one-tenth of the voters in the governorate in question. Each region will adopt a constitution of its own defining the structure of powers in the region, the region's authorities, and the mechanisms for exercising such authorities, provided that it does not contradict the Federal Constitution.

The regional powers will have the right to exercise executive, legislative and judicial powers in accordance with the Federal Constitution, except for those matters that are within the exclusive powers of the Federal Government. See "*The Political System—Division of Powers Between the Federal and Regional Governments*."

The Federal Constitution requires that regions and governorates be allocated an equitable share of the national revenues sufficient to discharge their duties and obligations, while taking into account their resources, needs, and the percentage of their population.

The regional governments are responsible for all the administrative requirements of the region. In particular, they are empowered to establish and organize the region's internal security forces (*e.g.*, police, security forces and guards).

The Federal Constitution recognizes Kurdistan as a federal region. The Kurdistan region consists of the vast majority of the areas of the governorates of Erbil (the capital of Kurdistan), Dohouk, Sulaymaniah, and the city of Halabja. Parts of the Kirkuk, Nineveh, Salah Al-Din and Diyala governorates are included in the KRG or otherwise disputed between the KRG and the Federal Government. Article 140 of the Federal Constitution provides for a referendum to be held in Kirkuk and other disputed territories. The referendum was originally scheduled for the end of 2007, but has not yet taken place. See "*—Potential Iraqi Kurdistan Referendum on Right to Self-Determination*."

Governorates Not Organized Into a Region

Governorates that do not join a region enjoy broad administrative and financial autonomy enabling them to manage their own internal affairs in accordance with the principle of decentralized administration. With the two parties' approval, Federal Government responsibilities may be delegated to the governorates, or vice versa.

Each decentralized governorate is headed by a Governor, elected by the Governorate Council. The Governor is deemed the highest executive official in the governorate, exercising powers authorized by the Governorate Council. The Governorate Council has independent finances and is not subject to the control or supervision of any ministry or any institution not linked to a ministry.

The administrative levels within a province consist of districts, counties and villages.

The Capital

Baghdad in its municipal borders is the capital of Iraq and constitutes, in its administrative borders, the governorate of Baghdad. The capital may not become part of any region.

The Judicial System

In accordance with the Federal Constitution, the Iraqi federal judiciary is composed of the Supreme Judicial Council, the Federal Supreme Court, the Federal Court of Cassation, the Public Prosecution Department, the Judiciary Oversight Commission, and other federal courts regulated by law. The other federal courts include 16 appellate courts across Iraq, in addition to the Central Criminal Court in Baghdad.

The Supreme Judicial Council is responsible for the supervision of the federal judiciary. The Supreme Judicial Council nominates the Chief Justice and members of the Federal Court of Cassation, the Chief Public Prosecutor and the Chief Justice of the Judiciary Oversight Commission, such nomination requiring approval by the Council of Representatives. It also proposes a draft annual budget for the federal judiciary, to be approved by the Council of Representatives.

The Federal Supreme Court is a financially and administratively independent judicial body, responsible for overseeing the constitutionality of laws and regulations, interpreting the Federal Constitution, deciding on disputes arising from the application of federal laws and regulations, deciding on disputes arising between the Federal Government and/or the regional and/or governorates governments, deciding on accusations directed against the President, the Prime Minister and the ministers, ratifying the final results of the parliamentary elections, and deciding on cases of conflict of jurisdiction between the federal judiciary and the courts of the regions or governorates, and conflicts of jurisdictions between the courts of the regions or the governorates. Decisions of the Federal Supreme Court are final and binding on all authorities.

The Federal Constitution highlights the independence of the judiciary, as well as that of the judges, as a guarantee of the rule of law. To enforce the independence of the judiciary, the Federal Constitution prohibits a judge from assuming an executive or a parliamentary position. To further ensure the impartiality of judges, judges are prohibited from joining a political party or organization, or otherwise engaging in any political activity.

The Ministry of Justice has a State Council (comprised of several courts) with primary jurisdiction over administrative disputes. Besides its judicial tasks, the State Council takes part in preparing and reviewing draft legislation, ensuring the consistency of legislation in effect, and reviewing and opining on international treaties and other legal questions presented to it by the relevant authorities.

The Kurdistan region has its own judiciary, which is organized similarly as the federal judiciary.

Armed Forces

The Federal Constitution expressly stipulates that the Iraqi armed forces and security services will be composed of the segments of the Iraqi people with due consideration given to their balance and representation without discrimination or exclusion, and that they are subject to the control of the civilian authority. The Iraqi armed forces and security services are entrusted with the mission of defending Iraq, and must not be used as an instrument to oppress the Iraqi people, nor may they interfere in the political affairs of the country or have any role in the transfer of authority. Military personnel are prohibited from standing for election to political office, campaigning for candidates, or participating in other activities prohibited by Ministry of Defense regulations. Crimes of military nature committed by members of the armed forces or security forces are to be adjudicated by military courts.

The allocation to the Ministry of Defense in the Federal Budget has risen significantly in the past few years from IQD 5.7 trillion in 2010 to IQD 10.8 trillion in 2015, but decreased to IQD 7.7 trillion in the 2017 Supplementary Budget as a result of the drop in the Federal Government budget generally. In addition, the 2017 Supplementary Budget allocates IQD 10.5 trillion to the Ministry of Interior, in comparison to IQD 13 trillion in 2015 and IQD 10.4 trillion in 2016. The 2017 Supplementary Budget further authorizes the MoF to utilize the U.S. government's U.S.$4.5 billion Foreign Military Finance Loan in order to finance certain expenditures of the Ministry of Defense, of which U.S.$883 million is expected to be funded in 2017.

In the Kurdistan region, Peshmerga forces are organized under the Ministry of Peshmerga Affairs as the KRG's security force. As such, the Peshmerga forces form part of Iraq's overall security forces. The Peshmerga forces are estimated to be composed of approximately 190,000 fighters in northern Iraq, and have assumed an active role in the recent confrontation against Daesh. The Peshmerga forces have played a key role in defending the Kurdistan region against Daesh as well as recapturing areas of the Kirkuk and Nineveh governorates from Daesh. In addition, they have been engaged in the Battle for Mosul, being responsible for the Northern and part of the Western fronts near the city.

Besides the Iraqi Armed Forces and the Peshmerga forces, the Popular Mobilization Forces constitute the third component of the Iraqi security forces. The Popular Mobilization Forces were formed in June 2014 after the advances accomplished by Daesh militants in Mosul. The Popular Mobilization Forces now form part of Iraq's Armed Forces following the adoption of the Popular Mobilization Commission Law on December 19, 2016. Although they are not engaged directly in the Battle for Mosul, the Popular Mobilization Forces are engaged in key battles west of Mosul, in particular around the town of Tal'Afar and the communication routes between Mosul and Eastern Syria.

Membership in International and Regional Organizations

Iraq experienced an extended period of isolation in the sphere of international relations during the latter part of the regime of Saddam Hussein. Subsequently, the Ministry of Foreign Affairs has endeavored to re-establish Iraq's standing internationally.

Iraq is a member of a number of international and regional organizations, including many dedicated to promoting peace and security, such as the UN (including various bodies and specialized agencies), the League of Arab States, the Organization of Islamic Cooperation, the Non-Aligned Movement, the G77, the IMF, the World Bank, the WTO

(as an observer government), the Organization of Petroleum Exporting Countries ("**OPEC**") and the Organization of Arab Petroleum Exporting Countries ("**OAPEC**"). Iraq is also a participant in the MENA-OECD initiative.

United Nations, World Bank, IMF and WTO

Iraq was a founding member of the UN, the World Bank Group and the IMF in 1945. The UN has continued to play a vital role in supporting the Iraqi people, in particular through the UN Assistance Mission for Iraq as well as through a number of Security Council resolutions on a host of economic, political and administrative issues. These efforts continue to the present day, with the launch on June 4, 2015 of the Iraq Humanitarian Response Plan, an appeal for funding by the UN and EU in response to the current humanitarian situation. See "*The Economy*" for information on Iraq's relationship with the IMF. Iraq joined the WTO as an observer government in December 2004.

League of Arab States

Iraq joined the League of Arab States (also known as the Arab League) as a founding member in 1945. Iraq is fully committed to upholding and defending the charter of the Arab League, the stated aims of which include strengthening ties among member states, coordinating policies, and directing member states towards a common good.

Organization of Islamic Cooperation

The OIC, founded in September 1969 and headquartered in Jeddah, Saudi Arabia, consists of 57 member states on four continents. The organization maintains cooperative relations with the UN and endeavors to safeguard and protect the interests of the Muslim world in the spirit of promoting international peace and harmony. Iraq has been an active member of the OIC since 1975.

G77 and Non-Aligned Movement

Iraq was a founding member of the G77 and, in 1961, joined the Non-Aligned Movement. Iraq plays an active role in both organizations.

OPEC and OAPEC

Iraq played a major role in establishing OPEC, at the Baghdad Conference in September 1960, and is a member of OAPEC. As a major oil producer, Iraq plays an active role in both organizations.

MENA-OECD Initiative on Governance and Competitiveness for Development

Iraq is a participant in the MENA-OECD Initiative, which has two pillars: the MENA-OECD Governance Program and the MENA-OECD Competitiveness Program. The MENA-OECD Governance Program is a strategic partnership between MENA and OECD countries to share knowledge and expertise, with a view of disseminating standards and principles of good governance that support the ongoing process of reform in the MENA region. The MENA-OECD Competitiveness Program supports reforms to mobilize investment, private sector development and entrepreneurship as driving forces for growth and employment in the region.

THE ECONOMY

Overview

With a 2016 nominal GDP of IQD 202.7 trillion (U.S.$171.7 billion), and a population of approximately 38 million, Iraq is one of the largest economies in the Arab Middle East. While the Iraqi economy suffered extensively during the many years of sanctions and war, during the early part of the current decade it experienced high real growth rates, reaching 10.2%, 12.6% and 7.6% in 2011, 2012 and 2013, respectively, driven primarily by growth in the oil sector. However, as a result of the difficulties related to the conflict with Daesh and a decline in international oil prices, the Iraqi economy has suffered more recently, with nominal GDP falling by 23.4% in 2015 and 3.4% in 2016. Real GDP grew by 0.7% in 2014, 4.8% in 2015 and 11.0% in 2016 as a result of increased production volumes in the oil sector, which sector recorded real growth of 5.4% in 2014, 18.4% in 2015 and 24.6% in 2016. Non-oil sector real GDP declined by 3.9% in 2014, 9.6% in 2015 and by 8.1% in 2016.

The Iraqi economy is dominated by its oil sector, which represented 33.8% of nominal GDP in 2016 (65.5% of real GDP based on 2007 constant basic prices) and generated approximately 99% of Iraq's export revenues during that year. Iraq's oil production has recovered significantly from post 2003 lows. Iraq is a leading producer in OPEC and one of the largest oil exporters in the world, and its reserves rank among the most significant among oil producing countries worldwide. Iraq's reliance on the oil sector means that the economy is vulnerable to declines in the price of oil and disruptions to production and exports. The Federal Budget is by its terms prepared on the basis of expected revenue from the oil sector, determined in turn on assumptions regarding daily production levels and the average oil price during the budget period.

The table below shows the contribution of the oil and non-oil sectors to real GDP, and the growth rates of oil and non-oil GDP in real terms, during the periods indicated.

	2012	2013	2014	2015[1]	2016[2]
GDP Contribution/Growth Rates					
Oil sector:					
Percentage of real GDP[3].....	51.5%	49.4%	51.7%	58.4%	65.5%
Growth rate (real terms)[3].....	13.0%	3.1%	5.4%	18.4%	24.6%
Non-oil sector:					
Percentage of real GDP[3].....	48.5%	50.6%	48.3%	41.6%	34.5%
Growth rate (real terms)[3].....	15.0%	12.4%	(3.9)%	(9.6)%	(8.1)%
Total GDP growth rate (real terms)[3].....	**13.9%**	**7.6%**	**0.7%**	**4.8%**	**11.0%**

Source: Iraqi authorities' estimates.

(1) 2015 GDP numbers are based on annual estimations.
(2) 2016 GDP numbers are based on quarterly estimations.
(3) Real GDP numbers are based on 2007 constant basic prices.

Recent Developments

On August 1, 2017 the Executive Board of the IMF completed the Second Review of Iraq's SBA. The completion of the Second Review allows the Federal Government to draw the third instalment amounting to SDR 584.2 million (U.S.$824.8 million), bringing total disbursements to SDR 1.5 billion (U.S.$2.1 billion).

Arrangements with the International Monetary Fund

Following the challenges faced by the Iraqi economy in 2015 as a result of the conflict with Daesh and the sharp decline in oil prices, Iraq resorted to the IMF to address its growing budget deficit. IMF assistance was in the form of a Rapid Financing Instrument ("**RFI**"), a Staff Monitoring Program ("**SMP**") and the SBA.

The Rapid Financing Instrument

The IMF Executive Board approved in July 2015 SDR 891.3 million (approximately U.S.$1.24 billion or 75% of quota) for Iraq under the RFI in order to help Iraq address its urgent balance of payment and budget needs. The IMF utilizes the RFI to provide rapid and low-access financial assistance to member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. Access under the RFI is limited to 75% of quota per year and 150% of quota on a cumulative basis. Although the financial assistance under the RFI is provided without the need for a full-fledged program or reviews, the IMF urged the authorities in Iraq to lay the ground for medium-term structural reforms that would better support macroeconomic policy management and boost the economy's resilience to shocks.

The Staff Monitoring Program

In an effort to engage with the IMF at a relatively early stage, the Federal Government requested in November 2015 the commencement of an SMP with the IMF. The goal of this program was to establish a track record of policy credibility to pave the way for a possible financing arrangement with the IMF. The agreement on economic reforms connected to the SMP included the following economic policies:

1. The implementation of a large-scale fiscal consolidation in order to reduce government spending in line with reduced oil prices and therefore available resources, which required (a) the reduction in the non-oil primary deficit by U.S.$20 billion, or 12% of non-oil GDP, between 2013 and 2016; and (b) a large increase in mostly domestic but also external financing over the short term that will remain compatible with debt sustainability in the longer run. The SMP also provided for indirect financing of a portion of the budget deficit by the CBI, via the repurchase of Federal Government debt securities through the CBI's discount window. The policy included the protection of social spending in order to minimize the impact of the fiscal consolidation on the population. Expenditure cuts took place mainly through a reduction in non-oil investment expenditure;

2. In order to maintain economic stability and reduce external pressures, the maintenance of the Iraqi dinar peg to the U.S. dollar. The Federal Government also committed to gradually remove remaining exchange restrictions and to implement reforms on anti-money laundering and combating the financing of terrorism;

3. The introduction of measures to increase public financial management and avoid a lack of clarity in the allocation of fiscal resources. These measures included the preparation, with the assistance of international organizations, of a new public financial management law (the draft of which was approved by the Council of Ministers and sent to the Council of Representatives for its passing into law, which to date has not taken place);

4. The implementation of reform measures to enhance the stability of the banking sector, which included preparing a plan to restructure the Rasheed Bank and Rafidain Bank; and

5. The survey and audit of arrears to domestic contractors, which was only completed in March 2017. Due to a lack of strong financial management, the amount of domestic arrears was unclear at the time of entering to the SMP, which led not only to the non-payment of arrears but allowed for significant corruption in the payment of such domestic arrears. Under the SBA, the survey of all arrears of the Federal Government, and the audit of all arrears on non-oil investments identified by the Ministry of Planning, was ultimately completed, and a program for their payment was introduced. In April 2017, the payments of the audited amounts commenced to the domestic contractors. See "*Public Debt and Related Matters—Government Arrears.*"

The Stand-by Arrangement

In the spring of 2016, the Federal Government commenced negotiations with the IMF on the SBA, pursuant to which the IMF would provide certain facilities tied to certain requirements imposed on the Federal Government. The Federal Government reached agreement with the IMF in May 2016, and, in July 2016, the IMF Executive Board approved the SBA for SDR 3.831 billion (approximately U.S. $5.3 billion or 230% of quota). This approval enabled the disbursement of approximately U.S.$634 million in July 2016. As is the case with other IMF SBAs, the IMF

would hold periodic reviews of the program with representatives of the Federal Government and, if the agreed conditions were met, the IMF would disburse further funds to the Federal Government. The SBA contemplated six additional disbursements in September 2016, April 2017, October 2017, April 2018, October 2018 and April 2019, each to be preceded by a review confirming the Federal Government's compliance with the SBA's conditions. The first of these additional disbursements only occurred in December 2016, and subsequent disbursements are now scheduled to occur following review assessments commencing in March and September of each year. The Second Review was scheduled in March 2017 but only achieved IMF Executive Board approval in August 2017. The schedule of future reviews and disbursements may also be modified.

Initial terms of the SBA

The SBA was based on a number of key economic factors that both the IMF and the Federal Government agreed were critical to the stabilization of the Iraqi economy and its subsequent recovery. These critical factors were:

1. Ceasing and reversing the reduction of the CBI reserves, which were approximately U.S.$77.8 billion at the end of 2013 but decreased to U.S.$50.9 billion at the end of 2015, and further to U.S.$42.7 billion at the end of 2016. Accordingly, the IMF program placed certain quantitative targets on the level of CBI reserves that the CBI was required to maintain throughout the SBA;

2. Maintaining a sustainable level of debt and resisting a significant increase in the debt levels. This required a significant reduction in expenditures, in particular non-oil investment expenditures; and

3. Eliminating the accumulated arrears to international third parties. In particular, the Ministry of Oil started to delay payments to the IOCs under the technical services agreements, and therefore those arrears began to increase. See "*Public Debt and Related Matters—Government Arrears*."

The SBA is conditional on various policy commitments agreed between the IMF and the Federal Government. These commitments are in the form of prior actions that Iraq agreed to implement before the IMF's Executive Board approved the SBA or subsequent reviews ("**Prior Actions**"), quantitative performance criteria, which are specific and measurable conditions that have to be met to complete a review ("**Performance Criteria**"), indicative targets, which are quantitative indicators to assess Iraq's progress in meeting the objectives of the SBA ("**Indicative targets**"), and non-quantifiable structural benchmarks that are intended as markers to assess program implementation during a review ("**Structural Benchmarks**").

The Performance Criteria apply through the end of 2017 with quarterly targets. The Performance Criteria, as initially agreed, are comprised of (i) a floor on the stock of gross international reserves of the CBI; (ii) a ceiling on net domestic assets of the CBI; (iii) a floor on the central government non-oil primary balance; (iv) the elimination of outstanding arrears to IOCs; (v) the elimination of new external payments arrears on any existing, rescheduled and new debt of the Federal Government and/or the CBI; and (vi) a ceiling on the total gross public debt (domestic and foreign).

The Indicative Targets also apply through the end of 2017 with quarterly targets. The Indicative Targets include targets for a floor on Federal Government social spending and a ceiling on the stock of outstanding domestic arrears on non-oil investment expenditure.

First Review

The IMF completed the first review under the SBA in December 2016 and confirmed that understandings on sufficient corrective actions have been reached to put the program back on track, despite program performance having been mixed. Accordingly, the IMF Executive Board approved the disbursement of the second instalment of the SBA amount totaling approximately U.S.$618 million in December 2016 to Iraq.

The First Review revealed that as of the end of September 2016, the Performance Criteria related to CBI international reserves and net domestic assets appeared to have been met on the basis of preliminary unaudited data. The Performance Criteria related to the elimination of new external arrears was missed as a debt service payment did not go through for a technical reason. The Indicative Target related to the outstanding domestic arrears was

comfortably met as of June 2016, but the Indicative Target related to social spending was missed by a significant margin.

Three of the Structural Benchmarks for the First Review were met, namely: the compilation of fiscal reporting tables in line with the 2014 IMF Government Finance Statistics Manual presentation, the approval of a draft Financial Management Law according to World Bank and IMF recommendations, and the adoption of a by-law to set up a mechanism to comply with the relevant UN Security Council resolution on terrorism and terrorism financing. However, remaining Structural Benchmarks proved to be more time consuming than initially anticipated. Therefore, the Structural Benchmark related to the inventory of domestic arrears was postponed to the Second Review. The Structural Benchmarks related to the audits of the civil service wage payroll and the pensioner payroll were postponed to the Third Review. The IMF agreed to amend the commitments for the Second Review to accommodate the missed targets for the First Review.

Second Review

Following the First Review, the quantitative targets under the Performance Criteria relevant to the Second Review were slightly revised, as follows: (i) a floor on the stock of gross international reserves of the CBI of U.S.$46.5 billion as of December 31, 2016; (ii) a ceiling on net domestic assets of the CBI of IQD 6.87 trillion (U.S.$5.8 billion) as of December 31, 2016; (iii) a floor on the central government non-oil primary balance of a deficit of IQD 53.9 trillion (U.S.$45.6 billion) for the year ended December 31, 2016; and (iv) a ceiling on the total gross public debt (domestic and foreign) of IQD 130.5 trillion (U.S.$110.4 billion) as of December 31, 2016. (The IMF includes within its measure of public debt pre-2003 claims against Iraq that have not been renegotiated, Federal Government arrears and certain contingent liabilities arising under Federal Government guarantees (see "*Public Debt and Related Matters—External Debt Restructuring—Non-renegotiated Claims*," "*Public Debt and Related Matters—Government Arrears*" and "*Public Debt and Related Matters—Government Guarantees*"), which results in figures that are higher than those reported under "*Public Debt and Related Matters*" and elsewhere in this Prospectus.) In addition, there were continuous Performance Criteria related to the absence of arrears to the IOCs and new external arrears on existing obligations. Moreover, there were Indicative Targets (the non-compliance with which does not have the same consequences as non-compliance with Performance Criteria), which included a floor of IQD 18.2 trillion (U.S.$15.4 billion) as of December 31, 2016 on Federal Government social spending and a ceiling of IQD 4.5 trillion (U.S.$3.8 billion) as of December 31, 2016 on the stock of outstanding domestic arrears on non-oil investment expenditure.

There were a number of Structural Benchmarks for the Second Review, including in particular the introduction to the Council of Representatives of amendments to the Central Bank Law to strengthen the CBI governance and internal control framework, the completion of a survey of all arrears of the Federal Government and the audit by the BOSA of certain arrears on non-oil investment and on wheat purchases.

A staff-level agreement with the IMF with respect to the Second Review was announced in June 2017. The announcement contemplated that the Second Review would be submitted to the IMF Executive Board in early August 2017, subject to completion of certain prior actions described below. The Second Review has revealed that none of the six Performance Criteria at end-December 2016 were met. As of end-December 2016, the gross reserves of the CBI were U.S.$1.4 billion lower than the programmed floor, the net domestic assets of the CBI exceeded the programmed ceiling by IQD 2.1 trillion (U.S.$1.8 billion), the non-oil primary balance was lower than the programmed floor by IQD 4.2 trillion (U.S.$3.5 billion), the gross public debt was IQD 5.0 trillion (U.S.$4.2 billion) higher than the programmed ceiling, the Performance Criterion on the elimination of external arrears on rescheduled and new debt was missed by U.S.$1.3 billion and stock of outstanding arrears to IOCs was U.S.$1.2 billion instead of zero as programmed. The Federal Government missed the Performance Criteria because of the spending pressure flowing from the war against Daesh and the ensuing humanitarian crisis coupled with the low oil prices, and because of the incurrence of additional expenditure in the electricity sector (made in order to reduce public pressure on the delivery of electricity) and additional arrears. The Federal Government requested waivers for the non-observance of these Performance Criteria.

The Federal Government has met most of the Structural Benchmarks for the Second Review. However, the Structural Benchmarks relating to the approval by the Council of Ministers of amendments to the law for the CoI, and the preparation by the Ministry of Finance of a report on all recurrent and investment commitments were not

achieved. The Federal Government has requested the postponement of these Structural Benchmarks to the Third Review.

In light of the Federal Government's performance under the Second Review, the IMF Staff requested the following Prior Actions that must be met prior to the approval of the Second Review by the IMF's Executive Board at its meeting in early August 2017:

1. Adoption of the 2017 Supplementary Budget by the Council of Representatives;

2. Updating the Finance and Accounting Manual issued by the Ministry of Finance; and

3. The approval by the Council of Ministers of amendments to the decree establishing the Guarantee Committee responsible for approving guarantee requests by ministries and spending units in order to link future guarantees to the underlying projects and to ensure that future guarantees are in line with the debt sustainability levels in Iraq.

The Federal Government has met all Prior Actions, including the adoption by the Council of Representatives of the 2017 Supplementary Budget. On August 1, 2017, the IMF Executive Board announced that it had completed the Second Review. See "*—Recent Developments*."

Third Review

The Federal Government requested that four revised Performance Criteria for the Third Review be tested as of June 30, 2017, as follows: (i) a floor on the stock of gross international reserves of the CBI of U.S.$38.5 billion; (ii) a ceiling on net domestic assets of the CBI of IQD 16.0 trillion (U.S.$13.5 billion); (iii) a floor on the central government non-oil primary balance of a deficit of IQD 34.7 trillion (U.S.$29.3 billion) for the six months ending June 30, 2017; and (iv) a ceiling on the total gross public debt (domestic and foreign) of IQD 140.4 trillion (U.S.$118.6 billion). In addition, the continuous Performance Criterion related to the absence of new external arrears on existing rescheduled debt and new borrowing remains unchanged under the Third Review, although the Federal Government has requested that the Performance Criterion related to the elimination of arrears to IOCs be changed to an Indicative Target, with a permitted ceiling of U.S.$500 million on these arrears to allow for shipments to be made to IOCs in volumes that make such shipments economically efficient. See "*Public Debt and Related Matters—Government Arrears*." Based on estimated figures as of March 31, 2017, Iraq believes that three of the Performance Criteria were satisfied as of that date: the stock of gross international reserves of the CBI, the net domestic assets of the CBI, and the non-oil primary balance of the Federal Government. The other two Performance Criteria were missed, although one has since been cleared. In addition to the foregoing, considering the risks posed by state guarantees for debt and fiscal sustainability, the Federal Government expects a new Performance Criterion to be added, limiting to U.S.$500 million the principal amount of new Federal Government guarantees issued between February 23, 2017 and the date of the adoption of the 2017 Supplementary Budget.

The Third Review will also be subject to a number of Structural Benchmarks including the completion by BOSA of audit of the government wage and pensioner payrolls to identify persons receiving wages or pensions without legal justification, completion of survey of all arrears of the Federal Government at least as of June 30, 2017, external audit of the gross international reserves and net domestic assets of the CBI as of June 30, 2017, external audit of the total public debt as of June 2017 (excluding arrears and external debt from the pre-2003 regime), approval by the Council of Ministers and introduction to the Council of Representatives of an amendment to the sales and excise tax law, and approval by the Council of Ministers of amendments to the Customs Tariff Law to reduce the number and level of tariffs bands.

The Performance Criteria and Structural Benchmarks are subject to adjustment by the IMF Staff and the Iraqi authorities until approval by the IMF Executive Board in early August 2017. Meetings in connection with the Third Review are expected to commence in September 2017.

Gross Domestic Product

GDP is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures this total value in current prices. Real GDP measures the total value of final production in constant

prices of a particular year (in Iraq's case, 2007), thus allowing historical GDP comparisons that exclude the effect of fluctuations in prices of economic outputs.

According to the IMF's World Economic Outlook Database published in October 2016, Iraq's nominal GDP was the world's 54th largest.

GDP by Sector

The following table provides information regarding Iraq's nominal GDP by sector for the periods indicated.

	Year ended December 31,				
	2012	**2013**	**2014**	**2015[2]**	**2016[3]**
Activity Sector[1]			*(IQD trillions)*		
Agriculture, Hunting, Forests and Fishing ..	10.5	13.0	13.1	8.2	10.1
Mining and Quarrying	127.2	126.4	124.6	70.4	68.9
Crude Oil	126.4	125.6	124.1	69.9	68.6
Other Mining Industries	0.8	0.9	0.5	0.5	0.3
Manufacturing	6.9	6.3	5.0	3.8	4.2
Water and Electricity	4.4	4.9	5.8	6.1	5.2
Construction	15.4	20.2	19.1	12.7	8.5
Transport, Storage and Communications	14.4	18.1	19.5	21.0	16.0
Wholesale, Retail Trade, Restaurants and Hotels.....	19.6	20.5	20.9	21.0	21.9
Finance, Insurance, Real Estate and Business Services	19.7	21.3	20.6	21.4	21.7
Finance and Insurance.....	4.2	5.0	3.1	2.2	2.4
Real Estate	15.4	16.2	17.5	19.2	19.3
Community, Social and Personal Services.....	37.5	44.0	45.8	46.7	47.0
General Governmental	32.1	37.7	39.4	40.0	40.5
Personal Services.....	5.3	6.2	6.5	6.7	6.4
Total	255.7	274.7	274.5	211.2	203.4
Eliminations, including for bank service fees.....	1.5	1.2	0.9	1.5	0.7
Total GDP.....	**254.2**	**273.6**	**273.6**	**209.7**	**202.7**
Non-Oil GDP[4].....	127.8	148.0	149.5	139.8	134.1
Total GDP (% change)	17.0	7.6	0.0	(23.4)	(3.4)
Oil GDP (% change).....	9.7	(0.7)	(1.2)	(43.7)	(1.8)
Non-Oil GDP[4] (% change)	25.2	15.8	1.0	(6.5)	(4.1)

Source: Iraqi authorities' estimates.

(1) Some services are included in more than one category, which results in some degree of double counting.
(2) 2015 GDP numbers are based on annual estimations.
(3) 2016 GDP numbers are based on quarterly estimations.
(4) Non-oil GDP numbers are based on deducting the crude oil amount from the total GDP.

Iraq's nominal GDP remained stable between 2013 and 2014 before decreasing significantly by 23.4% in 2015. The large decrease in GDP between 2014 and 2015 was primarily due to the impact of lower oil prices, as well as the conflict with Daesh, which also resulted in a large number of IDPs. Nominal oil GDP contracted modestly by 1.8% in 2016, while nominal non-oil GDP contracted by 4.1% in the same year. The decrease in non-oil GDP in 2016 was largely due to the decrease in the construction sector, and the transport, storage and communications industries, which decreased by 33.4% and 23.6%, respectively.

Although nominal GDP decreased more modestly in 2016 by 3.4%, real GDP increased in 2016 by 11%, largely as a result of strong oil production, although low oil prices continued to weigh on the economy. By contrast, real non-oil

GDP continued to contract as a result of the ongoing war with Daesh, decreasing by 3.9%, 9.6% and 8.1% in 2014, 2015 and 2016, respectively. The decrease in real non-oil GDP in 2016 was driven primarily by declines in the construction sector, and the transport, storage and communications industries, which contracted by 40.3% and 28.3%, respectively, compared to 2015.

The following table provides information regarding Iraq's real GDP by sector for the periods indicated (based on 2007 constant basic prices).

	Year ended December 31,				
	2012	**2013**	**2014**	**2015[2]**	**2016[3]**
Activity Sector[1]			*(IQD trillions)*		
Agriculture, Hunting, Forests, and Fishing	6.0	7.5	7.3	3.7	5.9
Mining and Quarrying	84.3	86.9	91.5	108.2	134.6
Crude Oil	83.8	86.4	91.1	107.9	134.4
Other Mining Industries	0.5	0.5	0.3	0.3	0.2
Manufacturing	2.9	2.7	2.1	1.5	1.6
Water and Electricity	1.6	1.9	2.1	2.1	2.1
Construction	12.0	15.3	14.5	9.5	5.7
Transport, Storage and Communications	10.3	12.7	13.4	14.3	10.3
Wholesale, Retail Trade, Restaurants and Hotels	14.4	14.9	14.8	14.9	14.9
Finance, Insurance and Real Estate and Business Services	12.0	12.6	11.5	11.6	11.8
Finance and Insurance	2.6	3.0	1.8	1.2	1.3
Real Estate	9.4	9.6	9.8	10.4	10.5
Community, Social and Personal Services	19.9	21.3	19.5	19.8	18.7
General Governmental	16.4	17.4	15.4	15.6	15.0
Personal Services	3.5	4.0	4.1	4.2	3.7
Total	163.5	175.7	176.8	185.7	205.5
Eliminations, including for bank service fees	0.9	0.7	0.5	0.9	0.4
Total GDP	**162.6**	**175.0**	**176.3**	**184.8**	**205.1**
Non-Oil GDP [3]	78.8	88.6	85.1	76.9	70.7
Total GDP Growth Rate	13.9	7.6	0.7	4.8	11.0
Oil GDP (% change)	13.0	3.1	5.4	18.4	24.6
Non-Oil GDP (% change)	15.0	12.4	(3.9)	(9.6)	(8.1)

Source: Iraqi authorities' estimates.

(1) Some services are included in more than one category, which results in some degree of double counting.
(2) 2015 GDP numbers are based on annual estimations.
(3) 2016 GDP numbers are based on quarterly estimations.
(4) Non-oil GDP numbers are based on deducting the crude oil amount from the total GDP.

Principal Sectors Of The Economy

The Oil and Gas Sector

In the present section, information on crude oil production and exports excludes production in the Kurdistan region, except for production delivered by the KRG to SOMO for export. Additional volumes exported independently by the KRG are not included.

Overview

Iraq is one of the leading producers and exporters of crude oil in the world. Iraq estimates that it has 153 billion barrels of conventional oil reserves as of February 2017. In 2016, crude oil production averaged 4.6 million barrels

per day, and exports through SOMO averaged 3.3 million barrels per day. Iraq is one of the lowest cost producers of oil in the world. Iraq is a member of OPEC. See "*Description of the Republic of Iraq—Membership in International and Regional Organizations*."

The oil and gas sector in Iraq is managed by the Ministry of Oil, which has established specialized, wholly-owned companies to conduct operations. Between 2009 and 2012, service contracts were awarded to a number of major IOCs, under which the IOCs work as contractors with the Ministry of Oil's specialized companies to rehabilitate existing fields, to develop discovered fields and to explore for new resources. The objectives are to increase Iraq's oil production substantially, develop Iraq's natural gas resources, and discover new resources.

Iraq is a fully compliant member of the EITI, and publishes monthly data on crude oil production, average prices and revenues, exports and domestic consumption on the websites of the Ministry of Oil (http://www.oil.gov.iq) and SOMO (http://www.somooil.gov.iq).

The oil and gas sector is of crucial importance to the Iraqi economy. In 2016, the oil and gas sector represented approximately 33.8% of total GDP in nominal terms, before accounting for indirect economic activity relating to the oil and gas sector. In 2013, when higher prices for crude oil prevailed in world markets, the oil and gas sector accounted for 45.9% of GDP in nominal terms. Crude oil exports, refined products and related products represented approximately 99% of Iraq's total export revenues throughout the five-year period ended December 31, 2016.

In April 2013, the Council of Ministers adopted an Integrated National Energy Strategy ("**INES**") that calls for substantial investments in energy infrastructure, including oil and gas infrastructure, through 2030, in order to allow the Iraqi energy sector to realize its potential and to drive the development of the remainder of the Iraqi economy. The study that led to the adoption of the INES found that the lack of adequate infrastructure, including in particular systems for the evacuation of crude oil production, refinery capacity, natural gas processing facilities and electric power generation facilities, presented a significant obstacle to the realization of Iraq's objectives in the oil and gas sector. Implementation of the INES began in June 2013, although many of the initiatives are on hold due to a lack of financing and, in the northern and western part of Iraq, the security situation.

While insurgent activities have significantly impacted the oil and gas sector in Iraq since 2014, the main oil fields in the south and the oil export terminals in the Arabian Gulf have not been affected, and both production and exports from these fields have significantly increased. In the northern and western part of Iraq, insurgent attacks have rendered the Iraqi portion of the Iraq-Turkey Pipeline inoperative, and have severely damaged the Baiji refinery (Iraq's largest), which resulted in the closure of the refinery (*Salah Al-Din 1 and 2*, and the *North Refinery*), and affected plans for infrastructure projects in these areas contemplated in the INES.

In November 2016, the members of OPEC, together with certain oil exporting countries outside OPEC, agreed to reduce crude oil exports with a view to limiting excess supply and reversing the decline in prices. The objectives of the agreement have thus far been achieved, with average monthly Brent blend benchmark prices increasing by 10.2% between November 2016 and May 2017, although prices have declined somewhat in June and early July. Over the November 2016-May 2017 period, the monthly average export price for Iraqi crude oil increased from U.S.$40.5 per barrel to U.S.$45.7 per barrel, but declined to U.S.$42.7 per barrel in June 2017. As a result of Iraq's compliance with the OPEC agreement, however, export volumes through SOMO have decreased from an average of 3.5 million barrels per day in November 2016 to approximately 3.3 million barrels per day in May as well as in June 2017. In its meeting held on May 25, 2017, OPEC agreed to further extend the oil supply cut agreement until March 2018.

The decline in global oil prices in recent years has had a significant impact on the price of Iraq's oil exports, and thus on its revenues from such exports. The average Official Selling Price for Iraqi crude oil exports was U.S.$91.6 per barrel in 2014, and declined to U.S.$36.1 per barrel in 2016.

Organization of the Oil and Gas Sector

The oil and gas sector in Iraq is managed by the Ministry of Oil, pursuant to the Law on the Organization of the Ministry (Law No. 101 of 1976) ("**Law No. 101**"). According to Article 5 (First) of Law No. 101, this sector includes exploration for, drilling, and extraction of oil and gas, processing and manufacturing of gas, the

transportation and marketing of crude oil, gas and their products, the construction of oil projects and the importation of specialized supplies for the sector.

The Ministry of Oil has organized a number of specialized, wholly-owned companies to conduct day-to-day operations in the oil and gas sector. In the upstream sector, the principal companies are Basrah Oil Company (formerly South Oil Company), which manages fields in the Basrah area, and North Oil Company, which manages the Kirkuk fields in northern Iraq. Other upstream fields are managed by Dhi-Qar Oil Company, Missan Oil Company and Midland Oil Company. The Ministry of Oil also has a number of specialized companies involved in exploration, drilling, construction and projects, natural gas processing, refinery operations, product distribution and tanker operations, as well as a research center and several training institutes.

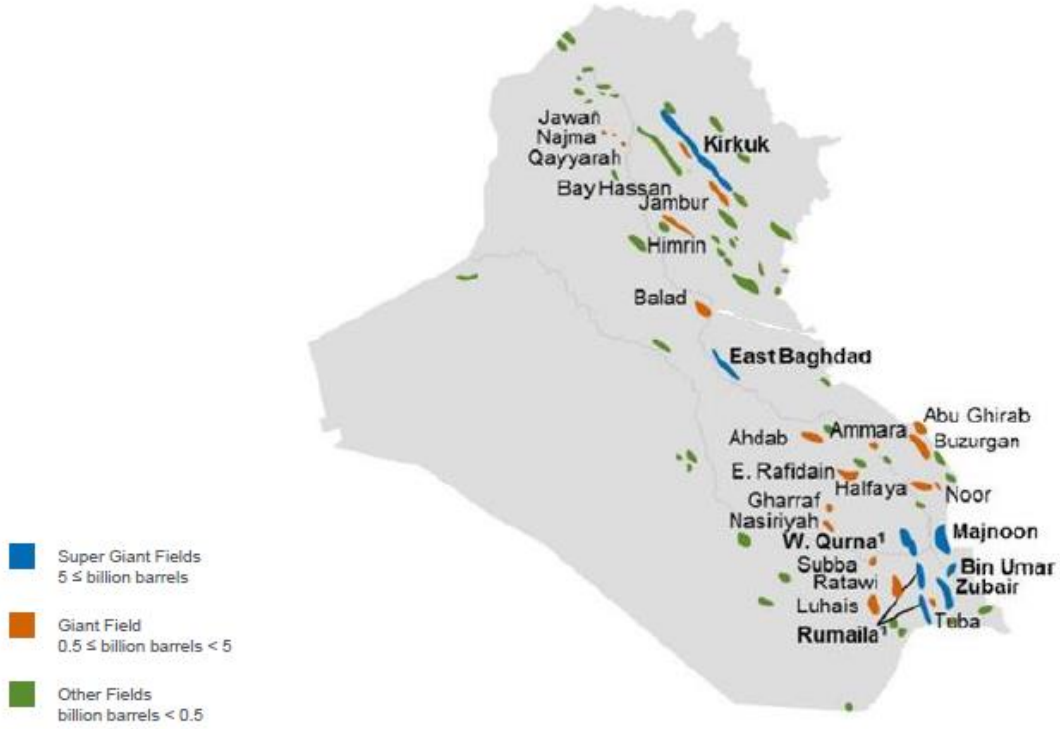
Crude oil exports are managed by Oil Marketing Company (Public Company), which is commonly known as SOMO (or State Oil Marketing Organization). SOMO acts as the seller of export crude oil, and publishes Official Selling Prices for Iraqi export blends, as well as crude oil export statistics. SOMO also manages imports of refined products.

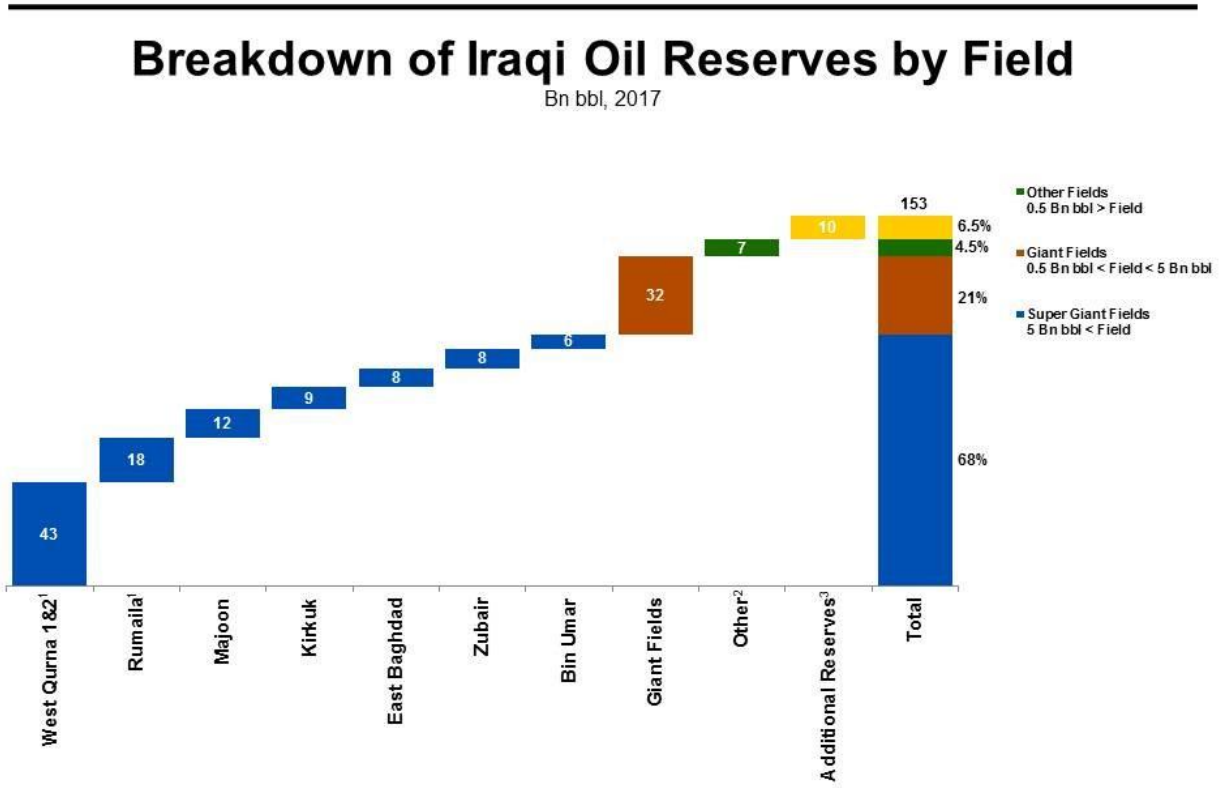
Upstream

Iraq has one of the largest national reserves of conventional oil in the world, estimated at approximately 153 billion barrels in February 2017. The current estimates of Iraq's conventional oil reserves represent a 10 billion barrel increase over the previous estimates of 143 billion barrels, and come as a result of exploration in the oil fields in central and southern Iraq. Approximately three-quarters of these reserves are concentrated in seven super-giant fields: West Qurna, Rumaila, Majnoon, Kirkuk, East Baghdad, Zubair and Bin Umar. All of these fields except Kirkuk and East Baghdad are located in the country's southern region and have so far been substantially unaffected by the current security situation. Iraq's oil resources have not yet been fully explored, and they may turn out to be much higher.

The following graphics illustrate the location of Iraq's principal oil fields and provides a breakdown of reserves by field.

Discovered Oil Fields in Iraq





(1) West Qurna includes both West Qurna 1 and 2. Rumaila includes both Rumaila North and South.

(2) "Other" is comprised of 51 small fields.

(3) The increased estimate is the result of appraisals and exploration carried out at seven oil fields in central and southern Iraq, according to an announcement made by MoO on February 19, 2017.

Source: INES, MoO announcement of February 19, 2017.

Production and Exports

Crude oil production in Iraq was around 1.7 billion barrels in 2016, representing an average of approximately 4.6 million barrels per day. Around 1.2 billion barrels of the 2016 production (or an average of 3.3 million barrels per day) were exported through SOMO, and around 486.4 million barrels (or an average of 1.3 million barrels per day) were used for domestic consumption.

The following table sets forth Iraqi crude oil production, exports and domestic consumption (excluding the Kurdistan region to the extent not exported via SOMO) for the period from 2012 to 2016, and the first quarter of 2017, as a total volume and as a daily average.

	Year ended December 31,					Quarter ended March 31,
	2012	2013	2014	2015	2016	2017
Iraqi Crude Oil			*(millions of barrels)*			
Total Production:						
For the period	1,054.6	1,087.7	1,135.1	1,352.3	1,694.8	413.0
Daily average.....	2.88	2.98	3.11	3.70	4.63	4.59
Exports:						
For the period	887.0	872.4	918.1	1,096.7	1,208.4	295.5
Daily average.....	2.42	2.39	2.52	3.00	3.30	3.28
Domestic Consumption:						
For the period	167.5	215.3	216.9	255.6	486.4	117.5
Daily average.....	0.46	0.59	0.59	0.70	1.33	1.31

Source: Ministry of Oil and SOMO.

Oil production and exports increased substantially from 2012 to 2016. Production in 2016 was 60.7% higher than in 2012, while exports in 2016 were 36.2% greater than in 2012. Exports have declined by approximately 48,000 barrels per day in the period between January 2017 and June 2017 in response to the OPEC agreement on production cuts. Domestic consumption also continued to increase between 2012 and 2015, reflecting growth in real GDP. In 2016, domestic consumption marked a growth of 90.3% in comparison to the preceding year as a result of the use of oil in new power plants. The increase in production resulted primarily from the rehabilitation and development work undertaken in cooperation with IOCs pursuant to the service contracts described below, the first of which were signed in late 2009 and early 2010.

Based on the development plans that have been approved under the service contracts (many of which are currently in the implementation stage) and on plans for the expansion of export infrastructure in the south of Iraq, the Ministry of Oil anticipates that Iraq's production and export capacities will increase significantly in the coming years. Even if Iraq is able to increase its production and export capacities as currently anticipated, actual production and exports will depend on a number of factors, including global market supply and demand, economic growth and any limitations to which Iraq may be subject under restrictions imposed by OPEC or other international agreements. Under OPEC's current production cut agreement, Iraq agreed to cut its oil production by 210,000 barrels per day until March 2018.

Service Contracts

Between 2009 and 2012, the Ministry of Oil awarded service contracts to a number of major IOCs, in a series of four licensing rounds.

- *First Licensing Round.* The first service contracts were awarded in a bidding process that took place in June 2009. The round involved mature, producing fields, and the objective was to rehabilitate the fields in order to increase their production and to maximize their long-term potential. Four technical service contracts were awarded: West Qurna 1 (ExxonMobil, Shell), Rumaila (BP, PetroChina), Zubair (ENI, Occidental, KOGAS) and Missan (CNOOC, TPAO). In October 2016, Occidental transferred its interest in the Zubair contract to South Oil Company (which has since been renamed Basrah Oil Company).

- *Second Licensing Round.* In December 2009, the Ministry of Oil awarded development and production service contracts for fields that were discovered but not yet developed, with a view to achieving rapid development and production. Seven contracts were awarded: West Qurna 2 (Lukoil, Statoil (which subsequently transferred its interest to Lukoil)), Badra (Gazpromneft, KOGAS, Petronas, TPAO), Garraf (Petronas, Japex), Halifaya (PetroChina, Petronas, Total), Majnoon (Shell, Petronas), Najmah (Sonangol) and Qayyarah (Sonangol).

- *Third Licensing Round.* The third licensing round involved natural gas fields. In October 2010, the Ministry of Oil awarded three gas development and production service contracts: Akkas (KOGAS, Kazmunaigaz), Mansuriya (TPAO, Kuwait Energy, KOGAS) and Siba (Kuwait Energy, TPAO).

- *Fourth Licensing Round.* In May 2012, the Ministry of Oil awarded exploration and development service contracts for exploration, appraisal, development and production relating to blocks in a number of regions of Iraq. Four contracts were awarded to Pakistan Petroleum; Kuwait Energy, TPAO and Dragon Oil; Lukoil and Inpex; and PetroVietnam, Premier Oil and Bashneft.

The service contracts were entered into between the Ministry of Oil's upstream companies and the IOCs, which act as contractors. In some cases, an Iraqi state partner also has a passive participation interest in the contracts. In the first licensing round fields, an operating division of the relevant Ministry of Oil company remains as operator of the fields, assisted by one of the IOCs acting as co-operator. In the other fields, one of the IOCs acts as operator.

The service contracts provide for the contractors to conduct operations in accordance with approved development plans, and to finance all of the costs relating to those development plans. The contractors receive cost reimbursement from a percentage (generally 50% to 60%) of deemed revenue from net production or, in the case of the first licensing round contract, a percentage of incremental production above a baseline (except for certain infrastructure costs, which are reimbursed from a percentage of existing and incremental production). They also receive per barrel remuneration fees when they achieve certain production targets. The remuneration fees were determined by bidding and decline following the recovery of all costs incurred by the contractors. Cost reimbursement and remuneration fees are paid to the contractors either in dollars, or by delivery of export crude oil (valued on the basis of the SOMO Official Selling Price). The IOCs are subject to income tax at a rate of 35%, which is subject to economic stabilization in the service contracts. See "*Public Finance—Iraqi Tax System—Corporate Income Tax*."

The contractors have made substantial investments in the productive capacity of the fields since the contracts were awarded. Despite the significant growth in production capacity and exports, actual production has been hindered by a lack of infrastructure to receive, evacuate and export production, as well as external factors that have periodically affected export capacities, such as adverse weather conditions. Under the service contracts, if production is curtailed due to the inability of the Ministry of Oil's transportation company to accept the production or due to OPEC restrictions, the contractors are generally entitled to compensation. In addition, costs incurred by the contractors have been significantly higher than initially anticipated.

A significant portion of the increase in Iraq's oil exports in recent years has been used to make payments to the IOCs. Payments due to the IOCs amounted to approximately U.S.$8.5 billion in 2013 and U.S.$13.1 billion in 2014. Following the decline in oil prices, the Ministry of Oil worked with IOCs to reduce investment budgets while maintaining the objective of increasing production and export capacity. Payments due to IOCs in 2015 and 2016 were approximately U.S.$13.6 billion and U.S.$12.4 billion respectively (which included arrears from previous years), and are expected to decrease to under U.S.$10 billion in 2017 as a result of the arrears to IOCs having been substantially cleared by March 2017 (except with respect to certain small offtakers whose deliveries will be deferred until the aggregated amounts are sufficient for the allocation of full tankers).

Because the entitlements of the contractors to receive cost reimbursement and remuneration fees do not depend on oil prices, the recent decline in oil prices has resulted in a significant increase in the share of Iraq's oil exports devoted to payments to contractors. In addition, due to the absence of a Federal Budget in 2014 (see "*Public Finance—Major highlights of the 2014, 2015 and 2016 Federal Budgets—2014 Federal Budget*"), arrears accumulated in 2014, but they have since been substantially cleared. At the end of 2015, the Ministry of Oil had arrears to IOCs of approximately U.S.$3.5 billion. As the negotiations with the IMF over the SBA began, the Ministry of Oil reduced those arrears to approximately U.S.$1.2 billion as of December 31, 2016. As of March 2017 all arrears to IOCs had been cleared (except with respect to certain small offtakers whose deliveries will be deferred until the aggregated amounts are sufficient for the allocation of full tankers). See "*Public Debt and Related Matters—Government Arrears*."

There have been several calls for the renegotiation of the service contracts, and in some cases amendments have been entered into. Initially, the renegotiations took place at the initiative of the contractors, which sought to adapt the contract terms in light of delays in obtaining approvals, importing equipment and initiating infrastructure projects. There have also been periodic discussions regarding possible revisions to financial terms in order to alleviate the short-term impact of the service contracts on available foreign exchange revenues, and to provide the IOCs with more incentives to control costs. These discussions have not resulted in any concrete renegotiation proposals thus far. Under Article 48 of 2017 Federal Budget, the Federal Government and the Ministry of Oil are

required to review the licensing rounds' service contracts in view of amending their terms to protect Iraq's economic interests, increase oil production and decrease expenditures.

Operations under the contract with KOGAS for the Akkas gas field, near the Syrian border, have been suspended due to insurgent activities, although the Ministry of Oil is discussing an alternative project with KOGAS. Operations at the Mansuriya gas field were also temporarily suspended in 2014 as a result of insurgent activities, although discussions are underway for the resumption of activity. Operations under two oil service contracts – Najmah and Qayyarah – have also been suspended by Sonangol, for security reasons.

Infrastructure Projects

The IOCs that are party to certain of the first and second licensing round contracts determined that, to maximize oil production, substantial volumes of water must be injected to replace the oil that is extracted from the reservoirs. Together with the Ministry of Oil, they concluded that the only viable way to obtain sufficient volumes of water is to construct a pipeline to carry water from the Arabian Gulf to the fields, as well as related treatment facilities. This project was named the Common Seawater Supply Project, or ("**CSSP**").

While substantial engineering work relating to the CSSP was completed, the project was delayed for lack of financing. Since then, alternative water sources have been identified and development plans altered to reduce short-term needs in order to provide additional time to develop the CSSP project. The Ministry of Oil has integrated the CSSP in a broader project that includes the development of the Nahr Bin Umar and Ratawi fields as a source of potential financing, as well as the development of a tank farm and export terminal at Al-Faw near the Arabian Gulf.

The Ministry of Oil has also recently announced plans to expand infrastructure to capture and process associated gas and to develop free gas deposits, as well as several refinery projects. See "*—Midstream and Downstream—Natural Gas*" and "*—Refining*."

Crude Oil Exports

Crude oil exports represent the principal source of foreign exchange revenues for Iraq. Export volumes have increased significantly in recent years, but revenues have recently been affected by the substantial decline in global oil prices.

Exports and Export Revenues

Iraq has traditionally sold two export blends: Basrah Light, which is exported through oil terminals in the Arabian Gulf, and Kirkuk blend, which is exported by pipeline and loaded onto tankers at the port of Ceyhan in Turkey.

In June 2015, the Ministry of Oil began to sell a third export blend, Basrah Heavy. Several of the new fields being developed under the service contracts, including in particular West Qurna 2, Halifaya and Badra, produce relatively heavy crude oil. Until recently the heavy crude oil was blended with the lighter crude oil produced at older fields, resulting in variations in quality depending on the proportional volumes from the various fields on given days. The purpose of the new Basrah Heavy blend is to improve the uniformity of the export blends delivered to the market. In addition, the Ministry of Oil believes that the Basrah Heavy blend is likely to be particularly attractive to U.S. refineries, which are equipped to process heavier crude oil blends.

Exports of Kirkuk blend crude oil are made through a pipeline operated by the KRG. The ability of SOMO to export such crude oil has been significantly affected by the ongoing dispute between the Federal Government and the KRG. See "*—Oil and Gas Production in the Kurdistan Region*."

All authorized crude oil exports are made by SOMO, which acts as seller. Sales are made F.O.B. Basrah oil terminal or Ceyhan, as the case may be. SOMO publishes Official Selling Prices for each export blend, with separate prices depending on the destination of each cargo (Europe, Americas or Far East).

The following table shows SOMO's crude oil exports, as well as revenues and average prices, from 2012 to 2016, and in the first quarter of 2017.

	Year ended December 31,					Quarter ended March 31,
Oil Exports	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Average annual crude oil Brent global spot ICE (U.S.$ per barrel)	111.8	108.7	99.7	52.8	44.0	53.6
Basrah Light:						
Exports (millions of barrels)	750.3	776.3	896.0	878.7	906.0	218.0
Revenues (U.S.$ billions)	79.4	79.3	82.1	39.8	33.6	10.7
Average price (U.S.$ per barrel)	105.8	102.2	91.7	45.3	37.1	49.3
Average price differential to Brent (U.S.$ per barrel)	6.0	6.5	8.0	7.5	6.9	4.3
Basrah Heavy:[(1)]						
Exports (millions of barrels)	-	-	-	160.5	295.0	73.7
Revenues (U.S.$ billions)	-	-	-	6.1	9.7	3.3
Average price (U.S.$ per barrel)	-	-	-	38.2	32.8	45.3
Average price differential to Brent (U.S.$ per barrel)	-	-	-	14.6	11.2	8.3
Kirkuk Blend:[(3)]						
Exports (millions of barrels)	136.7	96.1	22.1	57.5	7.3	3.7
Revenues (U.S.$ billions)	14.6	9.9	1.9	3.1	0.3	0.2
Average price (U.S.$ per barrel)	106.8	103.2	89.1	53.7	43.3	47.1
Total:						
Exports (millions of barrels)	887.0	872.4	918.1	1,096.7	1,208.4	295.5
Revenues (U.S.$ billions)[(2)]	94.0	89.2	84.1	49.0	43.6	14.3
Average price (U.S.$ per barrel)	106.0	102.2	91.6	44.7	36.1	48.2

Source: SOMO.

(1) Export of Basrah Heavy crude oil started in June 2015.

(2) Revenue figures include value of export oil delivered to IOCs under payment-in-kind provisions of the service contracts.

(3) Excludes crude oil exported by the KRG independently of SOMO. Average price differential to Brent not shown as deliveries of Kirkuk Blend have been irregular.

Crude oil exports made through SOMO in April 2017 were 97.5 million barrels, or an average of 3.25 million barrels per day, at an average price of U.S.$47.3 per barrel. Total crude oil export revenues in April 2017 were U.S.$4.61 billion.

Crude oil exports made through SOMO in May 2017 were 101.1 million barrels, or an average of 3.26 million barrels per day, at an average price of U.S.$45.7 per barrel. Total crude oil export revenues in May 2017 were U.S.$4.62 billion.

Crude oil exports made through SOMO in June 2017 were 98.2 million barrels, or an average of 3.27 million barrels per day, at an average price of U.S.$42.7 per barrel. Total crude oil export revenues in June 2017 were U.S.$4.2 billion.

Under the financial management law contained in Annex A to CPA Order No. 95 of 2004, as amended (the "**Financial Management Law**"), all revenues from SOMO crude oil exports are deposited in an oil proceeds receipt account with the FRBNY. According to the draft public financial management law approved by the Council of Ministers and currently under review by the Council of Representatives, all revenues from oil and gas exports, from gas extracted by the Federal Government or from the amounts paid for the exploration of oil resources will be transferred to the Federal Budget by means of an account called Oil and Gas Revenues Account. See "*Monetary System—The Development Fund for Iraq.*"

Under UN Security Council Resolutions 687 (1991), 1483 (2003) and 1956 (2010), Iraq is required to transfer 5% of the proceeds from all export sales of petroleum, petroleum products and natural gas, as well as 5% of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers, into a compensation fund established by the UN primarily to compensate damage caused (primarily in Kuwait) during the First Gulf War. See "*Description of the Republic of Iraq—History*." In light of the extraordinarily difficult security circumstances in Iraq, this requirement has been temporarily postponed since 2015 by the Governing Council of UN Compensation Commission . See "*Risk Factors—Risks Factors Relating to Iraq—Iraq has substantial contractual financial commitments*," and "*Monetary System—The Development Fund for Iraq*."

Export Infrastructure

There are two principal export routes for Iraqi crude oil. Production from fields in the southern region of Iraq, near Basrah, is exported through the al-Basrah oil terminal and the Khor al-Amaya oil terminal, which are two offshore loading platforms in the Arabian Gulf. Additional single-point mooring facilities have also been put in place in recent years. Production from the Kirkuk area fields are exported by pipeline through the Kurdistan region to Ceyhan, Turkey, where it is loaded onto tankers.

Kirkuk exports have been significantly impacted by insurgent activities and by the dispute between the Federal Government and the KRG. Insurgents have attempted to seize the Kirkuk production facilities, but these attempts have been repelled in cooperation with the Kurdish Peshmerga security forces. Since the attacks began, certain production reservoirs that were formerly operated as part of the Kirkuk production complex have been operated by the KRG. Insurgents have also severely damaged the Iraqi portion of the Iraq-Turkey pipeline, making it unusable. Since December 2014, the Federal Government and the KRG have periodically agreed on arrangements for the transportation of Kirkuk crude oil through a pipeline that runs through the Kurdistan region and that has been connected to the Iraq-Turkey pipeline near the Turkish border. See "*—Oil and Gas Production in the Kurdistan Region*." Compliance with these arrangement has been sporadic and has stopped altogether for significant periods.

The pipeline between Iraq and Turkey was constructed and is operated pursuant to the Iraq-Turkey Pipeline Agreement, a treaty that was initially signed in 1973, and amended several times, most recently in 2010. Under the amended Iraq-Turkey Pipeline Agreement, the Iraqi side must pay minimum transport fees of approximately U.S.$275 million per year, regardless of the actual volume transported. The Iraqi side declared force majeure beginning as of March 2014, and thus is contractually excused from this obligation. Iraq and Turkey are currently involved in international arbitration proceedings as a result of Turkey's transportation of independent KRG crude oil exports. See "*—Oil and Gas Production in the Kurdistan Region*."

Pursuant to the INES, a number of initiatives have been undertaken to increase the capacity of Iraq's crude oil export infrastructure, including the addition of five single point mooring export facilities in the Arabian Gulf, construction of a seawall to reduce the impact of adverse weather conditions, and dredging around the export terminals. Renovation of the al-Basrah oil terminal is currently planned (although exports will continue while the renovation work is undertaken). A significant increase in storage capacity is also contemplated to allow the Ministry of Oil to receive production from the fields operated by the IOCs even when export terminal capacity is unavailable, reducing the need for curtailments. Thus far, storage capacity has been increased from approximately four million barrels to approximately twenty five million barrels, and additional capacity is under development.

The Ministry of Oil is currently studying a project to increase export and storage capacity at the al-Faw export terminal in Southern Iraq, as part of an integrated project that would include the development of the CSSP water project and the development of two fields in the region. See "*—Upstream – Infrastructure*."

In northern and western Iraq, the INES contemplated the rehabilitation of the Iraqi side of the Iraq-Turkey pipeline, with a connection added to the Basrah fields in the south, the rehabilitation of a pipeline through Syria together with the construction of a parallel new pipeline, and the construction of an oil and gas pipeline to the Jordanian port of Aqaba. These projects are on hold, as a result of the security situation in parts of western and northern Iraq, as well as in Syria. Alternatives are currently under study, including a plan to change the export pipeline route to Jordan to run close to the border with Saudi Arabia, which is considered to be more secure than the previously contemplated route.

Midstream and Downstream

Refining

In 2016, approximately 28% of Iraq's crude oil production was consumed domestically. The large majority has been refined into products for domestic consumption, while a portion has been delivered to electricity-producing facilities. Iraq has three major refineries: Baiji, Daura (in Baghdad) and Basrah. The aggregate capacity of Iraq's refineries currently operating is 520,000 barrels per day. Once the prospective Karbala refinery is completed, the aggregate capacity of Iraq's refineries will increase to 660,000 barrels per day. The Ministry of Oil also has a plan to repair 50% of the Baiji refinery, which would further increase the aggregate capacity of Iraq's refineries to 810,000 barrels per day. The Ministry of Oil hopes to achieve an aggregate refining capacity of 1.5 million barrels per day by 2025.

In addition, there are several refineries operating in the Kurdistan region, which serve a portion of the domestic consumption needs of the Kurdistan region. These refineries process crude oil produced in the Kurdistan region as well as limited volumes of Kirkuk blend crude oil.

Before the closure of the Baiji refinery, Iraq's domestic refining capacity was sufficient to cover its aggregate estimated domestic demand. However, the components of demand and production are not aligned. Iraqi refineries produce more fuel oil than Iraq can currently transport or consume, with the excess blended back into the crude oil stream. They produce significantly less gasoline, gasoil and, until recently, liquefied petroleum gas ("**LPG**") than is needed to meet domestic requirements, and the gasoline is generally of poor quality, with high sulfur content, lead additives and low octane ratings. In 2016, Iraq spent a total of approximately U.S.$2 billion on imports of gasoline, gasoil, Kerosene and LPG.

In 2007, the Council of Representatives adopted a Law on Private Investment in Crude Oil Refining, which was amended in 2011 and in 2016. Under this Law, private refineries (which may be up to 25% owned by Ministry of Oil companies) are entitled to purchase crude oil feedstock at a 8% discount to international prices (subject to a minimum discount of U.S.$5 per barrel and a maximum discount of U.S.$10 per barrel) for a period of 50 years. The Law also provides other incentives for the development of private refineries, such as a guaranteed allocation of land.

A number of projects to increase refining capacity and the quality of refined products are underway or being studied. Work has started on a refinery in the Karbala governorate, for which a group of Korean companies has signed an engineering, procurement and construction contract. However, construction of the Karbala refinery has been slowed due to lack of financing. A second refinery project in the Dhi-Qar governorate, combined with production operations to provide feedstock, is currently under negotiation. A license has also been awarded under the Private Investment in Refineries Law for the construction of a 150,000 barrel per day refinery in the Maysan province, which may involve both exports and domestic sales of products. The refinery is expected to be in operation in a few years. One project designed to upgrade the quality of gasoline at two modest-sized refineries in the Kirkuk area has been awarded to Iraqi companies, which are working jointly with specialized foreign companies. In March 2017, the Ministry of Oil announced that it plans to increase the capacity of the Kirkuk oil refinery from 30,000 barrels per day to 40,000 barrels per day by the end of 2017. The Ministry of Oil has also announced that it will consider awarding more contracts for the construction of modest-sized (at least 70,000 barrels per day) refineries, so long as they produce at least 80% light products (gasoline, diesel and kerosene).

The Ministry of Oil has recently announced an investment opportunity to build a new 300,000 barrels per day refinery in Basrah, which will be executed on a build–operate–transfer (BOT) or build–own–operate–transfer

(BOOT) basis. If the project goes forward, the new refinery would be environment friendly and in compliance with the emission requirements of the EURO-5 international standards. The project has not been awarded to date.

Natural Gas

Iraq holds an estimated 3,681 billion cubic meters of proved natural gas reserves (based on data declared to OPEC), or approximately 130.0 trillion standard cubic feet, representing the twelfth largest conventional natural gas reserves in the world as of June 2017. In addition, vast areas of Iraq that are thought to have gas potential have not yet been explored, nor have existing non-associated gas discoveries been explored at deep levels. As a result, Iraq's gas potential could be substantially larger than its published estimated reserves.

Currently, substantially all natural gas produced in Iraq is associated gas that is produced as a by-product of crude oil production. In 2016, average gas production in Iraq was approximately 2,828 million standard cubic feet (mmscf) per day, a figure that is low in light of Iraq's substantial reserves. If Iraq is successful in increasing its crude oil production, its production of associated natural gas will increase accordingly. The service contract projects for non-associated gas, if successful, will also increase natural gas production. The Ministry of Oil is currently targeting natural gas production of approximately 2,840 mmscf per day by 2020.

A substantial portion of the associated gas currently produced in Iraq is flared, due to a lack of gas gathering and processing infrastructure, as well as insufficient pipeline capacity for the transportation of gas from processing plants to consumption points. The result is the waste of a valuable economic resource, as well as significant air pollution and carbon release. Because of these issues, gas production in Iraq is insufficient to meet the needs of power producers (which instead use expensive imported fuel, and which are expected to purchase gas produced in Iran that will be transported to Iraq through two new pipelines, the first of which started operating in June 2017), or to allow the development of ancillary industries that rely on gas feedstock, such as petrochemicals, steel and aluminum.

Iraq has taken a number of steps with a view to increasing gas production and developing infrastructure. In the third licensing round, the Ministry of Oil awarded service contracts for three discovered fields that are believed to be natural gas fields. Work has stopped at one of the three fields, Akkas, which is close to the Syrian border, although discussions are underway with respect to an alternative project. At the Mansuriya field, discussions are underway to restart operations after they were suspended in 2014 due to security concerns. Engineering and design work is underway at the Siba gas field.

Significant steps have also been taken to improve gas processing infrastructure. In 2011, South Gas Company, which is owned by the Ministry of Oil, entered into a joint venture agreement with affiliates of Shell and Mitsubishi for the creation of BGC (51% owned by South Gas Company), which has rehabilitated existing gas processing facilities and is expected to construct new facilities with a view to processing up to 2,000 mmscf/d of associated gas from the West Qurna 1, Rumaila and Zubair fields. This has substantially reduced flaring at the three fields, as well as produced enough LPG to satisfy domestic demand and to allow initial exports.

In addition, Iraq is studying proposals to create three gas "hubs" for the processing of associated gas from crude oil fields in the Basrah, Nassiriyah and Maysan provinces. The gas hubs are planned to process up to 150 mmscf/d of natural gas. A second phase of the project may include the development of non-associated (free) gas fields.

Iraq has made a number of significant undertakings in connection with the gas development and infrastructure projects. In the second and third licensing round agreements, the Ministry of Oil companies have committed to reimbursing the costs and paying the remuneration fees of the contractors based on planned natural gas production, on a "take-or-pay" basis. Similarly, South Gas Company (backed by the Ministry of Oil) has committed to purchasing dry gas and LPG produced by BGC and allocated to domestic consumption, and to funding its 51% share of the equity investments in BGC.

Domestic Distribution

Domestic distribution of oil products in Iraq is handled by Oil Products Distribution Company ("**OPDC**"), which is wholly-owned by the Ministry of Oil. OPDC owns and operates 298 service stations (many more service stations are owned and operated by the private sector) and 2,126 LPG and kerosene centers throughout Iraq. OPDC provides

a full range of products, including light products such as gasoline, diesel fuel, aircraft fuel and LPG, as well as lubricating oils, grease, and heavy products such as tar and heavy fuel oil. OPDC's service stations and centers are served by product depots located around the country.

The downstream prices of oil products in Iraq are subsidized by the Federal Government. OPDC announces the prices of the various oil products. Prices vary depending on the type of the consumer. As of May 2017, the price of gasoline for individual consumers was set at IQD 450 (low octane) and IQD 850 (high octane) per liter, and the price of diesel fuel was set to be IQD 400 per liter. The price of fuel oil for state-owned cement plants was IQD 100 per liter, but IQD 150 per liter for investment companies. Likewise, the price of kerosene for private individuals was IQD 150 per liter, but IQD 300 per liter for state-owned entities and IQD 750 per liter for investment companies. The price of gas oil was set at IQD 400 per liter for individual consumers, and IQD 750 per liter for generator owners.

Products are distributed throughout Iraq through a pipeline network operated by Oil Pipeline Company ("**OPC**"). The mission of OPC is the maintenance of petroleum product pipelines from production points to consumers, distributing distillated petroleum products (gasoline, kerosene, diesel and other products), LPG and dry gas. OPC also manages control centers for the pipeline networks. It also operates pipelines for the transport of fuel oil to marine export terminals in the southern part of Iraq.

Oil and Gas Production in the Kurdistan Region

The KRG has 45 production sharing contracts with IOCs for the exploration and development of oil and gas fields in the Kurdistan region. The Federal Government has declared that these contracts are not valid, because they were not approved by the Ministry of Oil. Several fields in Kurdistan are currently producing, and while the Federal Government has maintained its position regarding the validity of the contracts, it has concentrated mainly on issues relating to the export of Kurdistan production, rather than the production itself.

In 2009, the KRG began exporting limited volumes of crude oil that were delivered to SOMO for export through the Kirkuk-Ceyhan pipeline. Export volumes increased in 2011, but disputes arose over compliance with a revenue sharing agreement designed to cover the production costs of the companies operating the fields in the Kurdistan region.

In 2012, the KRG began exporting modest quantities of crude oil independently by truck through Turkey and Iran. The Ministry of Oil initiated a legal action before the Iraqi Federal Supreme Court, seeking to have these exports declared illegal. In September 2012, an agreement was reached under which the KRG agreed to deliver crude oil to SOMO for export in exchange for cash payments from the Federal Budget. The agreement was reflected in the Federal Budget Law for 2013, which provided for the KRG to deliver 250,000 barrels of crude oil per day to SOMO for export, and to receive cash payments. Soon after the law was adopted, however, disputes arose relating to the calculation of the payments and other aspects of the implementation of the arrangement. The KRG delivered essentially no oil to SOMO in 2013, instead exporting approximately 12 million barrels for its own account by truck.

The draft 2014 Federal Budget Law provided for the KRG to deliver 400,000 barrels per day to SOMO for export. The KRG has publicly stated that it never agreed to this figure. Primarily because of the dispute, the 2014 Federal Budget Law was never adopted, and the Federal Government operated on the basis of a modified version of the 2013 Federal Budget. See "*Public Finance—Major highlights of the 2014, 2015 and 2016 Federal Budgets—2014 Federal Budget*."

In January 2014, the KRG began exporting oil independently through the Iraq-Turkey pipeline. The KRG tied its own pipeline into the Iraq-Turkey pipeline near the Turkish border in late 2013, and announced that it had entered into an energy framework agreement with Turkey. According to information from the Kurdistan Ministry of Natural Resources, the KRG exported approximately 180 million barrels of oil in 2015, yielding U.S.$3.95 billion of revenue achieved through direct export sales from June through December 2015, in addition to approximately U.S.$2.0 billion of payments by the Federal Government in the period from January through June 2015 pursuant to the agreement with the Federal Government. The KRG stopped publishing data on its production and revenues in November 2016.

The Federal Government contested the right of the KRG to export oil other than through SOMO. In February 2014, the Federal Government announced that it was stopping cash payments to the KRG. In May 2014, after the first tanker of KRG oil was loaded at Ceyhan, an arbitration proceeding was initiated against Turkey, alleging violations of the Iraq-Turkey Pipeline Agreement. In June 2014, the Ministry of Oil sought a preliminary injunction in the Iraqi Federal Supreme Court seeking to stop the KRG's exports, but the request was denied, because the Court considered that granting the injunction would amount to a premature decision on the merits of the litigation initiated in 2012 (as described above). In late June 2014, when a cargo of KRG crude oil arrived in the lightering area offshore Galveston Texas, the Ministry of Oil obtained an order from a magistrate in the United States District Court for the Southern District of Texas (the "**Texas Federal District Court**") for the seizure of the cargo upon entry into United States territorial waters. The order was subsequently vacated at the request of the KRG, and the Ministry of Oil filed an amended complaint. The KRG moved for the dismissal of the amended complaint, primarily on jurisdictional grounds. In January 2015, the Texas Federal District Court denied the KRG's motion to dismiss (except certain portions relating to maritime claims). The KRG filed an appeal from the denial of the motion to dismiss in the United States Court of Appeals for the Fifth Circuit, but the appeal was dismissed as moot (because the cargo had since been discharged outside the United States).

Despite the pending litigation, the Federal Government and the KRG agreed in November 2014 to a temporary arrangement under which the KRG agreed to deliver 150,000 barrels per day to SOMO in exchange for cash payment, and funding for the Peshmerga security forces. A definitive agreement was reached in December 2014 and reflected in the 2015 Federal Budget Law. Under the relevant provisions of the 2015 Federal Budget Law, the KRG was required to deliver 250,000 barrels per day of its own production to SOMO for export, and to transport 300,000 barrels per day of Kirkuk crude oil for delivery to SOMO. In exchange, the KRG was entitled to receive cash payments from the Federal Budget, and additional funding for the Peshmerga security forces. In addition, the KRG claimed the right to export independently any volumes produced in excess of the amounts specified in the Federal Budget Law, while the Federal Government asserted that such excess exports may only be made through SOMO. The settlement was fragile, as the two sides disagreed on the KRG's compliance with its delivery obligations and the calculation of the Federal Government's payments. The KRG stopped deliveries of crude oil to SOMO in mid-2015.

The 2016 Federal Budget, the 2017 Federal Budget and the 2017 Supplementary Budget also contemplate that the KRG would deliver 250,000 barrels per day of crude oil produced in the Kurdistan region to SOMO for export, and that it would transport 300,000 barrels per day of Kirkuk blend crude oil to the tie-in to the Iraq-Turkey pipeline. Compliance with the agreement underlying these Federal Budget Laws has been sporadic and has stopped altogether for significant periods. In addition, the KRG has continued to export crude oil for its own account, as well as appropriating Kirkuk crude oil delivered to it for transport, selling the crude oil for its own account (North Oil Company, which operates the Kirkuk field, cannot stop production because the fields produce gas that is needed for local power generation, and thus has no option but to deliver the crude oil into the KRG pipeline).

Proposed Hydrocarbon Law and Other Legislative Initiatives

The legal framework for the oil and gas sector is based largely on Law No. 101, which was adopted in 1976. Several proposals have been made to adopt a more modern hydrocarbon law. A draft hydrocarbon law was initially introduced in the Council of Representatives in 2007. Two different drafts, one from the Ministry of Oil and the other from the Council of Representative's Oil and Gas Committee, were introduced in 2011. Neither draft was adopted, largely because of disagreement over the right of the KRG to export crude oil directly, rather than through SOMO. Proposals to revive the hydrocarbon law process have been made from time to time, but no draft is currently under consideration.

The draft hydrocarbon law would have governed primarily the procedures for awarding license and contracts for the exploration and development of oil fields, and would have required the renegotiation of the contracts already in place. It also would have provided for the sharing of revenues from Iraqi oil production among regions and governorates and for the creation of an Iraqi National Oil Company. Proposals have also been made for separate revenue-sharing legislation, and separate legislation for the creation of an Iraqi National Oil Company.

Electricity

The Iraqi Ministry of Electricity (the "**MoE**") is responsible for generating electricity, operating the grid, distributing electricity to the public at large and providing overall regulatory guidance over the electricity sector in Iraq. The KRG Ministry of Electricity assumes responsibility for the electricity sector in the Kurdistan region.

Electricity production in Iraq is highly dependent on oil and natural gas. Oil and gas-fueled power stations account for a significant majority of installed capacity in the country. At the end of 2016, Iraq's electricity was principally generated by oil and gas (approximately 83%), hydroelectric power plants (approximately 4%), imports (approximately 8%) and purchases from independent power producers (approximately 5%). Production capacity in Iraq has increased significantly after 2003, bringing production from approximately 2,974 MW in 2003, to 6,414 MW in 2012. Currently, the MoE electricity generation capacity ranges between 10,000 and 12,000 MW, although Iraq's needs significantly surpass this amount (approximately 24,000 MW), especially during periods of increased demand (i.e., summer and winter seasons). In addition, Iraq imports and purchases approximately 1,000 MW from Iran. Key areas such as Baghdad still suffer significant electricity shortages, with consumers not receiving round-the-clock electricity supply in the middle of the summer.

The province of Baghdad is the province with the highest consumption of electricity in Iraq and, together with Basrah and Mosul, represent approximately 47% of the country's consumption outside the Kurdistan region, with the remaining 53% shared by the other provinces in the country.

For the year ended December 31, 2016, households consumed approximately 50% of the total electricity generation in Iraq, with the government, industrial, commercial and agricultural sectors consuming approximately 31.3%, 10.7%, 5.3% and 1.8% respectively.

The MoE's principal objective is to continue to increase generation capacity and to collect a higher percentage of revenue from delivered electricity. The MoE entered into large scale turbine supply contracts with General Electric and Siemens pursuant to which it acquired over 66 gas turbines. These have been mostly installed by the MoE and have become fully operational, increasing generation capacity by approximately 7,542 MW.

In addition to installing and operating its own electricity generation capacity, the MoE has also entered into five power purchase agreements with independent power producers to develop approximately 8,150 MW of generation capacity in the aggregate. The construction of the generation capacity contemplated by the power purchase agreements is to be implemented in several phases over a period of five years. The first phase under one of the agreements, involving 1,000 MW of capacity, is complete and is scheduled to commence production shortly. The first phase under another agreement is expected to complete at the end of 2017 or the beginning of 2018 with a capacity of 1,000 MW. Upon implementation of all phases, these two projects should have an aggregate production capacity of 6,000 MW. In addition to these two greenfield projects, in a bid to improve fuel efficiency, the MoE has begun a program to convert simple cycle power plants into combined cycle power plants. To this end, the MoE has entered into two power purchase agreements with one power producer to convert on a build-operate-transfer basis two power plants from simple cycle to combined cycle power plants, resulting in the addition of approximately 1,400 MW of production capacity. The MoE's obligations under these four power purchase agreements are backed by a government guarantee provided by the Ministry of Finance. See "*Public Debt and Related Matters—Government Guarantees.*" In late 2016, the MoE entered into an additional power purchase agreement in connection with the development of a greenfield combined cycle plant in Al-Amara with a capacity of 750MW, to utilize natural gas produced in Al-Amara governorate.

Pursuant to these contracts, the MoE is required to buy, under a "take or pay structure," between 70% and 90% of the production of the new or converted power plant at a set tariff for periods of between 15 and 17.5 years. In case of early termination of the first two contracts described above (with a total planned production capacity of 6,000 MW), the MoE is required to pay the counterparty an amount equivalent to the yearly tariff payment for the remainder of the contractual term; however, with respect to the other three contracts, in the case of early termination, the MoE is required to pay the counterparty an amount equivalent to three year's tariffs only. These projects face a number of difficulties in implementation, including achieving financial close, obtaining gas feedstock, coordinating water supply with the Ministry of Water Resources and coordinating the distribution of generated power, as the grid needs expansion.

In addition, the MoE recently entered into various agreements with General Electric that would add 2,800 MW production capacity through the addition of two new power plants and upgrades at existing plants.

The electricity tariff structure varies depending on the consumption rate and the client's sector. Commercial and Government consumers are charged based on their consumption rate, while industrial and agricultural consumers are charged at a flat rate. Electricity tariffs in Iraq are subsidized and regulated at low rates, and payments for electricity are irregular. The MoE recognizes the challenges in its tariff collections and therefore has implemented a plan to introduce smart meters, with a contract entered into in 2014 to introduce pilot smart meters in each of the governorates in which it operates. Although the Council of Ministers approved the restructuring of electricity prices in April 2015, the implementation of these new tariffs has been carried out haphazardly as there has been public pressure on the Federal Government to abandon the proposed restructuring. In 2016 the MoE carried out a pilot project to privatize tariff collection. The pilot was successful, as collection increased by approximately 600% in the area subject to the pilot program and consumption decreased. Accordingly, the MoE is expanding the tariff collection program across most of Iraq, though this too has faced public opposition and interferences.

A key challenge facing the MoE is its reliance on various fuels, as production of natural gas (including associated gas) is limited. Accordingly, the MoE is currently relying on a mix of fuels, including diesel, crude oil and heavy fuel oil, as well as natural gas, all of which are being supplied by the Ministry of Oil or are being acquired from a number of different sources. Iraq also has limited hydroelectric capacity through a number of dams, including the Mosul dam located on the Tigris river. Daesh briefly took control of the dam in 2014, but Iraqi forces regained control shortly afterwards. Electricity from the dam supplies the city of Mosul which, until recently, was fully controlled by Daesh. Due to the fighting in the region, the dam has been only intermittently maintained, raising the possibility of collapse. See "—*Environment*."

In order to provide consumers with electricity, local businessmen throughout Iraq have acquired small diesel generators and have linked them to the grid or directly to people's households. Accordingly, most households have two sources of power: one from the grid operated by the MoE, and the other from these local electricity suppliers. The cost of this local generation is significantly higher than that of the MoE, and this mode of generation adversely impacts the environment. The IOCs have also developed private electricity production capacities for use in the oil fields they operate.

The Federal Government has taken the position that the private sector should have a role in developing the electricity sector in Iraq. A new electricity law was passed in March 2017, which mandates the Federal Government to initiate a gradual liberalization of the sector and restricts the role of the MoE to a regulatory and licensing role. The law also provides for the division of the MoE into various companies (generation, distribution and transmission), although the implementation of this law has not commenced yet.

The MoE recognizes that there are significant issues to be tackled in the areas of transmission and distribution of electricity. The grid operated by the MoE requires significant upgrades due to its age and to the damage sustained over the last years due to terrorism and theft. In particular, the MoE is focused on upgrading its substations, and has recently entered into a number of contracts procuring substations, both permanent and mobile. The MoE is entering into a number of deferred payment schemes to build new transmission lines and substations with companies such as Toyota Tsusho, ABB and Siemens.

Agriculture

The agricultural sector in Iraq, which historically accounted for a substantial share of the country's GDP, currently makes only a small contribution to the GDP as a result of years of neglect due to war and sanctions. The contribution of output of the agricultural sector (which also includes hunting, forests and fishing activities) to real GDP was 4.1% in 2014, 2.0% in 2015, and 2.9% in 2016. The agriculture contribution to nominal GDP decreased sharply in 2015 by 37.8% as a result of the conflict with Daesh, before increasing by 23.4% in 2016. (It is expected that upon preparation of 2016 GDP figures based on annual estimations, the increase in output as measured in nominal terms will be lower.) Despite the modest contribution to GDP, agricultural workers represent approximately 20% of the overall workforce in Iraq. Moreover, within the Iraqi private sector and in rural areas, the agricultural sector is considered the primary source of employment. According to the Food and Agriculture Organization of the United Nations, the total cultivable land in Iraq is approximately 120,000 square kilometers, of which about 80,000 square kilometers were used for agricultural production in 2011, representing about 27.6% and

18.4%, respectively, of the total area of Iraq. The cultivated land decreased from approximately 63,000 square kilometers in 2014 to approximately 24,000 square kilometers in 2016 as a result of Daesh's occupation of certain governorates in Iraq, although the sector generated modest real growth in that year in part as a result of increased yields per square kilometer. Most of the agriculture in Iraq consists of small farming units where rural farmers engage in primarily subsistence-based farming. Over 80% of Iraqi farms are ten hectares or less in size, but even those farms that are ten hectares often have land dispersed in various locations.

Over 75% of farmers in Iraq engage in crop production as their main source of income, with the rest of the farmers depending on livestock or mixed farming. The main crops are wheat and barley, which are grown on around 78.3% of cultivated area. In 2016, Iraqi farmers cultivated land area of about 3.7 million acres of wheat and 1.1 million acres of barley, and produced approximately 3.1 million tons and 0.5 million ton of wheat and barley, respectively. Dates, maize, and rice are also major crops cultivated in Iraq. Iraq produces eight different varieties of dates, which are essential to the local diet. Natural pastures, which are used for livestock, comprise 9% of Iraq's total area. However, these lands have deteriorated due to the use of marginal lands and have suffered from the effect of wars. Animal resources comprise approximately 30% of the agricultural sector. The most important livestock include sheep, goats, cows and buffalo, since they are important food resources and also the most numerous. Recently, livestock have been affected by issues of malnutrition, reproduction and illness, decreasing the overall number of animals.

There is limited mechanized or commercial farming in Iraq. The Iraqi farming system has generally focused on short-term profits at the expense of long-term sustainability because of the high demand for food and the gradually depleting amount of available land. Moreover, productivity remains low because of the minimal use of machinery and fertilizers, poor quality seeds and ineffective methods of combating agricultural pests. The limited use of modern agricultural technology and processes has contributed to the inability of Iraq to be self-sufficient in the major agricultural crops, despite recent efforts by the Federal Government to increase production.

The Federal Government has developed several plans to improve the agricultural sector and to increase its contribution to the GDP. These plans also focus on increasing overall production to meet Iraq's food needs, and securing Iraq's water needs. The Federal Government is planning to implement these goals by increasing the amount of agricultural land, reclaiming land, combatting desertification and sand dunes, and exploiting water resources in a more efficient manner. Although the Federal Government's objective of achieving self-sufficiency and food security has been significantly hampered by the conflict with Daesh, which has taken control of some important areas for agricultural activities, and thus affected agricultural production levels, as well as by other factors described previously, the Federal Government recorded notable improvements in the cultivation of wheat, barley, maize, vegetables and fruits. The Federal Government has increased its support for rural farmers by launching a project in May 2014 to provide loans of about IQD 80 billion to farmers in an effort to help them reclaim land and procure required equipment and fertilizers. The Government is also focusing on expanding agricultural production in safe territories and commencing intensive farming projects.

In a bid to improve mechanized farming in Iraq, the Federal Government is encouraging the development of local technology through the local manufacturing of tractors, harvesters, and irrigation equipment, including in particular drip irrigation equipment, as a shortage of water remains one of the biggest hurdles currently facing the agricultural sector in Iraq. The Federal Government is also committed to improve training and research in the agricultural sector in Iraq.

Transport

Iraq's transportation sector consists of roads, airports, railways, and sea ports. The Ministry of Transport ("**MoT**") assumes responsibility for the management and operation of the country's transportation sector, apart from highways, which are regulated by the Ministry of Construction and Housing ("**MoCH**"). Besides the MoT and MoCH, many transportation utilities are run by SOEs. The 2017 Supplementary Budget allocates IQD 127 billion to the MoT for projects in the transport sector.

Road Transport

As of 2012, Iraq had a network of more than 59,623 kilometers of paved roads.

Road transportation is the most popular form of transport in Iraq. The General Company for Passenger Transportation ("**General Transportation Company**") is the primary operator of public transportation in Iraq. In 2015, the General Transportation Company operated 1,219 public buses, representing four-fifths of the buses operating in Iraq. Iraq suffers from poor road safety. According to the World Health Organization, Iraq had in 2013 approximately 20.2 road fatalities per 100,000 inhabitants, among the most elevated rates in the world.

The Federal Government seeks to expand the road transportation network in Iraq to aid commercial and business activities.

Civil Aviation

Iraq operates 23 airports, six of which are international airports. Iraq is a signatory to a number of international conventions relating to civil aviation, including the Convention on International Civil Aviation ("**Chicago Convention**"), the Convention for the Unification of Certain Rules Relating to International Carriage by Air, and the Convention on Offences and Certain other Acts Committed on Board Aircraft. The Iraq Civil Aviation Authority ("**ICAA**") is the agency responsible for Iraq's obligations under the provisions of Annex 9 of the Chicago Convention. According to Civil Aviation Law No. 148 of 1974, the ICAA, along with the MoT, is given broad powers to regulate aviation in Iraq, approve registration of airplanes, and own and operate airports (apart from military airports).

Founded in 1945, Iraqi Airways is the national air carrier in Iraq. In 2015, more than 1.5 million passengers flew through Iraqi Airlines, around 1.3 million of whom flew internationally. Iraqi Airways is negotiating to rejoin the International Air Transport Association (**IATA**). Besides Iraqi Airways and several international airlines, several private airlines also operate in Iraq.

Iraq is targeting private investment in its airport infrastructure. Iraq is planning to establish a new airport to be called The Mid-Euphrates (Al-Hussein) Airport, serving the governorates of Babylon, Kerbala, Najaf, and Diwaniyah. The project is aimed at facilitating transportation in the central Euphrates areas and promoting religious tourism at these governorates. Simultaneously, Iraq is upgrading the Najaf Airport and recently opened the Nasiriyah Airport.

Railways

As of December 2015, Iraq has maintained a railway network that extends for approximately 2,890 kilometers. The railway network in Iraq is owned and operated by the General Company for Railways (the "**Railways Company**"). In 2015, it carried around 463,000 passengers and more than one million tons of freight. The Federal Government has plans to increase the efficiency of the railway network by increasing the trains' speed, using electric trains, and removing intersections from the railway network.

Ports

Iraq's south border overlooks a narrow section of the Arabian Gulf, where the country's four ports are located. The Iraqi General Company for Ports (the "**GCP**") owns and controls the ports of Umm Qasr, Khor Al Zubair, Abu Fulus and Al-Maqal. The GCP has entered into rehabilitation and operation agreements with a number of international companies with respect to individual or multiple quays at the Umm Qasr port. In 2016, 2,171 cargo ships arrived at the country's ports, with 312 loaded cargo ships leaving the ports in the same year. Around 18.1 million tons of goods were imported by Iraq in 2014 through the Iraq ports, and 2 million tons of goods were exported. The Federal Government is planning on increasing the efficiency of the current ports as well as establishing the new port of Al Faw, which is intended to include container terminals, bulk terminals, general cargo terminals, and oil derivative terminals with a capacity of 230,000 barrels per day. The Port is expected to start receiving ships in the coming years after the completion of a breakwater and quays.

Communication and Media

Until 2003, Iraq was the only country in the Middle East with no national mobile telephone network. Since then, Iraq's telecommunication sector has attracted a significant amount of FDI. As of 2015, the number of mobile phone lines operating in Iraq reached 33.4 million, representing 90.6% of the Iraqi population at that time. The use of

Wireless Local Loop (WLL) networks has helped transform the sector significantly, by providing broadband internet and fixed line services without high infrastructure costs. The three main mobile operators in Iraq are Zain Iraq, AsiaCell, and Korek Telecom.

The Ministry of Communications of Iraq ("**MoC**") is the Federal Government ministry concerned with providing basic telecommunications services to the public and private sectors. The MoC also provides postal service to the general public and manages postal savings accounts. The MoC is directly responsible for the adoption and development of a strategic policy in the field of communications and recommending legislation in relation thereto.

The MoC runs three state-owned telecommunication companies: the Iraqi Telecommunication and Post Company ("**ITPC**"), Al-Salam Company, and the State Company of Internet Services ("**SCIS**"), which provide different telecommunication services. ITPC is responsible for providing telecommunication and mail services in Iraq and employs around 23,000 people. ITPC is the sole provider of international and inter-region interconnections in Iraq, and has an optical backbone used to connect all cities for over 20,000 kilometers, including two fiber optic projects in Iraq. Al-Salam Company provides security solutions, including video monitoring, alarm systems and communications, employing around 1,000 people. SCIS offers various internet services including: wireless broadband, asymmetric digital subscriber line (ADSL 2), and VTC VOIP service.

The Communication and Media Commission ("**CMC**") is the independent regulator of the communication and media sectors in the country. The CMC was established in 2004 pursuant to CPA Order No. 65, as the first of its kind in the Middle East in terms of converged regulation between media and communications. According to CPA Order 65, the CMC is an independent and non-profit administrative institution that is solely responsible for licensing and regulating telecommunication, broadcasting, information services and other media in Iraq, pursuant to the principles of objectivity, transparency, non-discrimination, proportionality and due process. One of the purposes of the CMC, under CPA Order 65, is to "promote and defend freedom of media and assist the media community in Iraq to develop, strengthen and maintain professional working practices that support the media's role as a public watchdog."

Religious Tourism

Religious tourism has become an area of increased importance to Iraq's economy. Iraq is home to sites important to various religions, making Iraq attractive to religious tourists. The religious sites in Iraq include the Imam Ali shrine, the Imam Hussein shrine, the Chaldean Church and other historic churches and monasteries, and the Yazidi temple in Lalesh. Many of the main religious sites are located within the holy cities of Najaf and Karbala. Baghdad is also home to a number of religious sites including the Imam Kadhim mosque as well as the tomb and mosque complex of Abu Hanifa. The number of foreign religious pilgrims that visited Iraq has increased from about 1.5 million people in 2011 to over 3.5 million people in 2016 according to the Governorate of Karbala. Religious tourism from Iran in 2016 was boosted by tensions between Iran and Saudi Arabia, which prevented Iranians from performing the Hajj in Mecca, Saudi Arabia.

The Federal Government recognizes the potential offered by religious tourism to positively impact Iraq's economy and is committed to increase its investment and attract private investments to the sector. Najaf and Karbala in particular have experienced a rise in the construction of hotels to accommodate the increased number of religious pilgrims visiting the cities. The Federal Government is planning to launch several tourism projects as well as maintain and expand existing projects. Work is on-going to complete a tourism and archaeology survey in Iraq, which is an important step to implement the Federal Government's plan to encourage investments in the sector. The growth of the tourism sector in Iraq continues to be hampered by the security concerns in Iraq and the activities of Daesh which has recently targeted and destroyed some historical and religious sites.

Environment

The total area of Iraq, including the territorial waters, is approximately 435,052 square kilometers. Occupying a large area of the Gulf region, Iraq has an arid subtropical continental climate with about 97% of the country situated in arid zones. Iraqi land is composed of approximately 39% deserts, 30% plains, 21% mountains, and 10% terrain land. Despite its vast land mass, only approximately 27% of Iraqi land is suitable for agricultural production and 67% of the cultivable land has already been used for agricultural production.

Iraq is a party to a number of international conventions on the environment, including the Basel Convention on the Control of Trans-boundary Movements of Hazardous Wastes and Their Disposal, the UN Framework Convention on Climate Change, the Kuwait Regional Convention for Co-Operation on the Protection of the Marine Environment from Pollution, UN Convention to Combat Desertification and the Kyoto Protocol to the UN Framework Convention on Climate Change.

The Ministry of Environment has the primary responsibility for the protection and improvement of the environment in Iraq. Law No. 37 of 2008 establishes the Ministry of Environment as the entity responsible for protecting and improving the environment and protecting public health, natural resources, environmental diversity, and natural heritage in Iraq. To supplement the activities of the Ministry of Environment, the Environment Protection and Improvement Council ("**Environment Protection Council**") was established in 2009 pursuant to Law No. 27 of 2009 ("**Environment Protection Law**"). The Environment Protection Law states that the Environment Protection Council is a body related to the Ministry of Environment, and shall be chaired by the Minister of Environment. The Environment Protection Council primarily plays a policy formulation and advisory role, and, from time to time, issues non-binding recommendations on environmental issues to the Council of Ministers, which become binding upon ratification by the Council of Ministers. The Environment Protection Law also includes provisions aimed at the protection of the country's rivers, lands and environmental diversity.

Iraq faces significant environmental issues. Iraq's water, air and soil continue to suffer from high rates of environmental pollution. Environmental pollution, largely caused by pollutants from the activities of oil companies and refineries in the country, and from the flaring of associated gas, has an adverse effect on the environment. Damage to Iraq's oil infrastructure has resulted in numerous oil spills. Iraq also suffers from unhealthy air quality, arising from unregulated use of power generators, lack of vehicle emission regulations, indiscriminate trash burning and tree cutting and burning. Decades of wars, conflicts and internal instability have also had a lasting negative impact on the environment in Iraq. In addition, the conflict with Daesh has negatively affected the maintenance of the Mosul dam in northern Iraq, exposing the dam to the risk of collapsing, which could trigger floods engulfing huge parts of Iraq and carrying with it unexploded ordinances, as well as toxic substances from oil refineries and human waste.

Iraq is vulnerable to climate change and in recent years has experienced a high frequency and intensity of extreme weather events and rising environmental degradation. Iraq has begun to feel the onset of climate change, including the greenhouse effect, low precipitation levels, and rising annual rates in temperatures, humidity and dust and sand storms. Population growth and urbanization have also put increased pressure on environmental resources, increasing the level of environmental degradation. Environmental degradation is manifest in the scarcity and pollution of water resources, air pollution, deterioration of biodiversity, and pollution of marine waters. Desertification is also a serious environmental challenge in Iraq as affected areas expand due to climate change and intensive exploitation of resources. As much as 39% of Iraq's surface is desert, and years of inappropriate farming practices and mismanagement of water resources have exacerbated the effects of an already dry climate and contribute to increasing rates of desertification. This brings about soil erosion, waterlogging and natural vegetation deterioration, and has increased the rates and frequency of sand and dust storms. Outside the mountainous regions of the north and northeast of Iraq, a majority of Iraq experiences either dry or semi-dry climate, characterized by less than 150 mm of rain per year and high evaporation rates. Levels of surface water in Iraq's reservoirs, lakes and rivers are diminished to critical levels, and minimal management of aquifers and their recharge has impacted the level and quality of groundwater supplies. Furthermore, excessive irrigation and lack of drainage have led to high levels of soil salinity in the area between the Euphrates and the Tigris, threatening the sustainability of agricultural production. In addition, Iraq's access to fresh water could be adversely affected by the construction of dams in neighboring countries. For example, the Ilisu Dam, which is currently being constructed by Turkey on the Tigris river, is expected to significantly reduce the flow of the Tigris river entering into Iraq once completed. Moreover, the Daryan Dam, currently being constructed by Iran, will largely restrict the inflow of the Sirwan river, which is the main supplier of fresh water in large parts of the Kurdistan region. These environmental issues, coupled with passive and underdeveloped waste management systems, lack of environmental awareness, and inadequate environmental monitoring systems in Iraq, have resulted in considerable deterioration of the quality of the environment. The Ministry of Environment in a 2013 report estimated the cost of environmental degradation in Iraq to be between 4.9% and 8% of GDP and the cost of air pollution in the provinces of Baghdad, Babylon, Nineveh, Najaf, Kirkuk, Maysan, Sulaymaniyah, Dohouk and Erbil to be 1.5% of GDP, based on data collected as at 2008. See "*Risk Factors—Risk Factors Relating to Iraq—Iraq faces significant environmental issues.*"

The Ministry of Environment, in conjunction with the UNDP and United Nations Environmental Protection Agency ("**UNEP**"), has formulated a National Environmental Strategy and Action Plan in Iraq 2013 – 2017 ("**NESAP**"). NESAP is a five-year action plan inspired by the right guaranteed under the Federal Constitution to the Iraqi people to live in sound environmental conditions, and sets out the policy objectives of the Federal Government to protect this right. The objectives set out in NESAP include to protect and improve both the air and water quality, to control land degradation and combat desertification, to protect and sustainably use biodiversity, and to develop and improve waste management. The NESAP also aims to reduce both oil pollution and radioactive contamination, to integrate management of hazardous chemicals, and to develop institutional and legal frameworks for the environment sector. The NESAP sets out proposed solutions for the environmental issues identified. The Ministry of Environment continues to work actively with the UNEP and other UN organizations to implement local capacity building projects and other environmental projects to improve the environmental conditions in Iraq.

Environmental protection in Iraq is primarily financed from the Federal Budget. The total amount that the Federal Government allocated to the Environment and Health in the 2017 Supplementary Budget is IQD 1,660 billion.

Labor and Social Policy

Wages and Employment

Iraq's unemployment rate was 11.9% in 2012 and decreased to 10.8% in 2016. The level of unemployment outside the security sector is expected to increase in 2017.

According to Employment Law No. 71 of 1987, the Minister of Labor must constitute a committee to convene periodically to determine the minimum wages of unskilled workers. In 2014, the average monthly wage (at market prices) was IQD 330,000 per person and IQD 1,875,000 per household. The minimum wage for unskilled workers and workers covered by social security was raised to IQD 250,000 in January 2015. Iraq is a signatory to the Minimum Wage-Fixing Machinery Convention of 1928.

Social Welfare and Social Insurance System

Poverty Assessment

In 2006, and in collaboration with the World Bank, Iraq constituted the Poverty Reduction Strategy High Committee ("**PRSHC**") of Iraq. The PRSHC worked on developing a foundation of reliable information to assess the welfare of Iraqis and to propose a strategy for alleviating poverty in Iraq. As a data gathering process, the PRSHC administered the Iraq Household Socio-Economic Survey ("**IHSES**"), the first nationwide income and expenditure survey since 1988 that generated data covering household income and expenditure.

The Iraqi Ministry of Planning reported in January 2017 that the proportion of Iraqis living in poverty had risen to 30% during 2016. The Ministry cited the continued presence of Daesh in a number of provinces, together with the low price of oil, as likely causes for the rise. According to the poverty assessment report issued in early 2016 there is a statistical correlation between poverty in Iraq and other contributing factors, including the size of the family and the lack of education. The city of Nineveh was cited by the report as the city with the highest poverty rate.

Poverty Alleviation

In 2009, the Council of Ministers adopted the National Strategy for Poverty Reduction. The strategy aims to increase the earnings capacity of the Iraqi population and improve protection for those who are unable to earn enough through their employment, with particular attention on productivity investment that benefits the majority of the population.

In 2014, Iraq promulgated Social Protection Law No. 11 of 2014 (the "**Social Protection Law**") in order to enhance the social welfare of Iraqis, and alleviate poverty in the country. The Social Protection Law seeks to benefit, among others, the disabled, orphans, prisoners' families, juveniles and households that are below the poverty line.

The poverty alleviation process is administered by the Social Protection Commission established pursuant to the Social Protection Law (the "**Social Protection Commission**"). The Social Protection Commission engages a number of social workers to determine the eligibility of the applicants to the social protection schemes.

The Ministry of Trade has, since 1990, administered a ration card system which seeks to secure essential goods for households in need. The 2017 Supplementary Budget allocates IQD 1.7 trillion to fund the ration card system. The Federal Government is setting up a database with the assistance of the World Bank to assess eligibility for welfare spending, in order to target assistance to the most needy households.

Unemployment Insurance

Unemployed beneficiaries can access unemployment benefits pursuant to the social protection scheme administered by the Social Protection Commission if they have no other source of income. Besides the payment made by the Social Protection Commission to the beneficiaries, the Social Protection Commission assists the beneficiaries in accessing the job market through training, and by offering them job opportunities. The unemployed beneficiaries will cease to be eligible for the unemployment benefits if they turn down job opportunities offered by the Social Protection Commission three consecutive times with no justifiable reason.

Pensions

In February 2014, the Council of Representatives passed Unified Retirement Law No. 9 of 2014 (the "**Retirement Law**"), which established a unified pension scheme for the employees of both the public and the private sectors. The Retirement Law establishes the National Retirement Commission and entrusts it with, among other things, preparing a database for the beneficiaries under the retirement scheme, and calculating and paying the pension benefits to the beneficiaries. The pension benefits payable under the Retirement Law are funded by a retirement fund (the "**Retirement Fund**"). According to the Retirement Law, the Retirement Fund is funded by various resources, including the contributions made by the Federal Government, the employer and the employee, returns on investment of its funds, and fees and fines imposed by the Retirement Law. The Retirement Law provides benefits to the beneficiaries in case of retirement, disability, aging or death.

FOREIGN TRADE AND BALANCE OF PAYMENTS

Introduction

The balance of payments is a statistical statement that summarizes transactions carried out between residents of a country and the rest of the world, during a specified period of time. The IMF has adopted, and from time to time updates, a Balance of Payments and International Investment Position Manual (the "**IMF Manual**"), which serves as the standard framework on the matter. Until 2012, Iraq operated on the basis of the fifth edition of the IMF Manual and, since then, has operated according to the sixth edition of the IMF Manual ("**BPM6**").

Under BPM6, the balance of payments consists of the current account, the capital account, and the financial account.

- The current account records the flows of goods, services, and primary and secondary income, between residents and non-residents, and comprises the goods and services account, the primary income account (showing amounts payable and receivable in return for providing temporary use to another entity of labor, financial resources, or non-produced nonfinancial assets), and the secondary income account (showing redistribution of income, that is, when resources for current purposes are provided by one party without anything of economic value being supplied as a direct return to that party). The current account balance records the difference between exports and income receivable, and imports and income payable, and represents the saving-investment gap of a country.

- The capital account records capital transfers receivable and payable between residents and non-residents, as well as the acquisition and disposal of non-produced, non-financial items.

- The financial account records transactions involving financial assets and liabilities between residents and non-residents.

Iraq's balance of payments is characterized by a trade balance surplus driven by oil exports, which has in the past led to the accumulation of significant financial assets by the CBI and the Federal Government. With the drop in the price of oil and recurring budget deficits since 2013, these reserves have contracted from U.S.$84.1 billion as of December 31, 2013 to U.S.$46.5 billion as of June 30, 2017. See "*Monetary System—Reserves*." Iraq's balance of payments is dependent on oil exports and exposed to oil market price volatility. See "*—Balance of Payments*" and "*Risk Factors—Risk Factors Relating to Iraq—Iraq depends on oil exports for substantially all of its foreign exchange revenues and for the large majority of its Federal Budget*."

Foreign Trade

Given the importance of oil exports, Iraq's trade balance fluctuates significantly with fluctuations in oil prices and oil production levels. Since 2003, Iraq has sought to improve its investment climate and to attract foreign investment. The TBI was established to encourage Iraq's international trade. See "*Monetary System—The Iraqi Banking System—Trade Finance*."

Iraq applied for WTO membership in 2004 and currently participates in WTO meetings as an observer. A roadmap has been prepared that outlines the steps for Iraq's WTO accession and Iraq has begun implementing this roadmap.

Investment and Trade Agreements

Iraq has entered into a number of bilateral and multilateral investment and trade agreements or arrangements. As of the date of this prospectus, Iraq had entered into arrangements for the promotion and protection of investments within the Arab League, and directly with Afghanistan, Bangladesh, France, Germany, India, Iran, Japan, Jordan, Kuwait, Mauritania, the Republic of Korea, Sri Lanka, Syria, Tunisia, Turkey, the United Kingdom, Vietnam and Yemen. Iraq has also entered into bilateral investment agreements with Armenia and Italy, although these have not yet been ratified by the Council of Representatives.

Further, Iraq entered into bilateral free trade agreements with Algeria, Egypt, Jordan, Lebanon, Oman, Qatar, Sudan, Syria, Tunisia, Yemen and the United Arab Emirates.

In 2008, a Strategic Framework Agreement was signed by Iraq and the United States. In 2014, new investment agreements with Jordan and Kuwait were approved by the Council of Ministers, and were ratified by the Council of Representatives in March 2016. The investment agreement with Jordan was also ratified by Jordan in 2017.

In 2013, the Trade and Investment Framework Agreement ("**TIFA**") between Iraq and the U.S., establishing a strategic framework for trade and dialogue on trade and investment issues, entered into force. The TIFA recognizes the parties' desire to expand trade in products and services as well as to promote an attractive investment climate. The TIFA also established the "United States-Iraq Council on Trade and Investment," which held its inaugural meeting in March 2014 and includes representatives from Iraq's Ministry of Trade and the Office of the United States Trade Representative. The council's goals include the identification of opportunities to expand bilateral trade and investment as well as removing impediments to trade and investment; the council also creates a forum for consultations on bilateral trade and investment matters.

Iraq is a member of the Multilateral Investment Guarantee Agency, the political risk insurance arm of the World Bank Group whose mission is to promote FDI in developing countries. In November 2015, Iraq signed the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (the "**ICSID Convention**"), and its accession to the ICSID Convention became effective in December 2015. As a result, Iraq has accepted the jurisdiction of the International Center for the Settlement of Investment Disputes ("**ICSID**"), under the auspices of the World Bank, for the resolution of disputes relating to investment treaties that provide for ICSID dispute resolution.

Iraq is now also at the early stages of engaging with the European Investment Bank with a view to possibly entering into an agreement.

In 2010, Iraq and the EU signed a Strategic Energy Partnership Memorandum of Understanding. In 2012, Iraq entered into a Partnership and Cooperation Agreement with the EU. Part of the agreement came provisionally into force on August 1, 2012, pending ratification. To date, it has been ratified by 26 EU countries, as well as Iraq. The EU considers Iraq an important trading partner in the Middle East and a strategic energy partner. Under the agreement, Iraq and the EU agreed to apply certain WTO rules under the General Agreement on Tariffs and Trade of 1994. This includes granting each other "Most Favored Nation" status. The agreement also provides for regular political dialogue on issues in areas of common interest.

Customs and Tariffs

Customs Law No. 22 of 2010, which came into force in 2015, as amended (the "**Customs Tariff Law**"), operates under the general framework of Law No. 23 of 1984, as amended, which established the general framework for the collection of customs and tariffs in Iraq. The Customs Tariff Law superseded prior legislation, including Customs Tariff Law No. 77 of 1955, as well as CPA Order No. 54 - Trade Liberalization Policy, as amended (the "**Trade Liberalization Law**") and CPA Order No. 38 - Reconstruction Levy. The Customs Tariff Law introduced new customs duties and tariffs, ranging from 3% to 40% of the value of imported goods, as specified in an annex to the law. The Customs Tariff Law provided for implementation in stages, though it stated that existing restrictions on certain imports and exports under Law No. 23 of 1984, as amended, or any other law, would continue to apply unless cancelled, pending the implementation of the Customs Tariff Law. The classifications of tariffs is expected to be amended before the end of 2018 to comply with certain requirements under the IMF SBA.

The Trade Liberalization Law prohibited certain imports and exports including magazines, films, videotapes and compact discs contrary to public norms, arms, and non-medical narcotics, and restricted certain exports and imports, all as listed in Annex A to the law. Restricted exports included foodstuffs, animals and certain manufactured goods. See "*Public Finance—Iraqi Tax System—Custom Duties and Sales Tax*."

Free Zones

Law No. 3 of 1998 and Instructions No. 4 of 1999 allow the creation of free zones in Iraq, where certain industrial, commercial and services activities may be exercised. There are currently three free zones in Iraq: Khor al-Zubair Free Zone; Nineveh Free Zone; and Al-Qaim Free Zone. The General Authority for Free Zones has recently signed a contract for the establishment of a fourth Free Zone in Baghdad. Companies operating in a free zone benefit from

certain privileges, including the application of a special tax regime. See "*Public Finance—Iraqi tax System—Special Tax Regimes*."

Imports and Exports

The table below sets out certain information regarding Iraq's imports and exports (both calculated on FOB basis) for the periods indicated. Owing to significant shortcomings in the statistical recording and processing system, among other things, there may be a significant underestimation in the amount of imports as officially reported. See "*Presentation of Certain Information*."

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016[3]**
	(U.S.$ millions, except percentage of imports and exports)				
Imports and Exports					
Imports (FOB)	**50,155.0**	**51,090.8**	**46,212.4**	**33,779.7**	**19,574.6**
Oil sector[1]	5,783	5,891	5,328	3,826	2,257
% of imports	11.5%	11.5%	11.5%	11.3%	11.5%
Non-oil sector	44,372.0	45,199.8	40,884.4	29,953.7	17,317.6
% of imports	88.5%	88.5%	88.5%	88.7%	88.5%
Exports (FOB)	**94,208.6**	**89,767.9**	**83,980.8**	**43,441.5**	**28,359.9**
Oil sector[2]	93,503	89,095	83,351	43,116	28,147
% of exports	99.3%	99.3%	99.3%	99.3%	99.2%
Non-oil sector	705.6	672.9	629.8	325.5	212.9
% of exports	0.7%	0.7%	0.7%	0.7%	0.8%
Balance of Trade	**44,053.6**	**38,677.1**	**37,768.4**	**9,661.8**	**8,785.3**
Oil sector	87,720	83,204	78,023	39,290	25,890
Non-oil sector	(43,666.4)	(44,526.9)	(40,254.6)	(29,628.2)	(17,104.7)

Source: CBI.

(1) This represents imports of crude oil, refined products, sulfur, phosphates, lubricants and related materials by the Federal Government and the private sector.

(2) This represents exports of crude oil and oil products, sulfur, phosphates, lubricants and related materials by the Federal Government and the private sector. Oil export revenues are based on cash payments received during the relevant period, not accruals.

(3) Data for 2016 is preliminary.

In the period between 2012 and 2014, Iraq maintained a significant trade surplus, driven by exports from the oil sector and high oil prices. Despite the sharply lower level of oil prices in 2015, Iraq managed to maintain a trade surplus although this surplus decreased by 75% in 2015. In 2013, exports decreased by 4.7%, compared to the previous year, and by 6.4% in 2014, and then decreased sharply by 48.3% in 2015, and again by 34.7% in 2016, compared to previous years. The sharp decrease in exports in 2015 and 2016 is mainly due to the decrease in oil prices, as well as delays in recording 2016 exports. At all times during this period, exports of crude oil, refined products and related products amounted to approximately 99% of Iraq's total exports, confirming the fundamental importance of this sector for the Iraqi economy.

Imports increased modestly by 1.9% in 2013, before recording decreases of 9.5%, 26.9% and 42% in 2014, 2015 and 2016, respectively. The decrease in imports in 2016 is a result of decreases in private sector capital imports and consumption imports, decreases in government imports, as well as delays in recording 2016 imports. During the period between 2012 and 2016, non-oil sector imports always represented more than 90% of total imports.

The following tables set forth certain information regarding Iraq's exports for the periods indicated. All data is calculated free on board ("**FOB**").

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**[1]
Category of Exports			*(U.S.$ millions)*		
Food and live animals	264	251	235	122	79
Beverages and tobacco	0	0	0	0	0
Inedible raw materials excluding fuels	141	135	126	65	43
Mineral fuels, lubricants and related materials[2]	93,503	89,095	83,351	43,116	28,147
Animal and vegetable oils and fats	0	0	0	0	0
Chemicals	9	9	8	4	3
Manufactured goods classified chiefly by material	47	45	42	22	14
Machinery and transport equipment	226	215	202	104	68
Miscellaneous manufactured articles	0	0	0	0	0
Commodities and transactions not classified according to kind	19	18	17	9	6
Total	**94,209**	**89,768**	**83,981**	**43,442**	**28,360**

Source: CBI.

(1) Data for 2016 is preliminary.

(2) Includes crude oil, refined products sulfur and phosphates. Oil export revenues are based on cash payments received during the relevant period, not accruals.

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**[1]
Exports by Destination			*(U.S.$ millions)*		
Arab countries	3,156	3,501	3,023	2,320	1,514
North and South America	25,314	17,325	16,124	3,810	2,488
European Union	15,846	13,465	14,277	10,543	6,883
Other European countries	254	449	756	4	3
Asia	46,935	54,938	49,297	26,669	17,410
Other	2,704	90	504	96	62
Total	**94,209**	**89,768**	**83,981**	**43,442**	**28,360**

Source: CBI.

(1) Data for 2016 is preliminary.

Between 2012 and 2016, exports to Asian countries accounted for approximately half of Iraq's total exports on average, with the share generally growing: 49.8% of Iraq's total exports in 2012 (U.S.$46.9 billion), before rising to 61.2% in 2013 (U.S.$ 54.9 billion), 58.7% in 2014 (U.S.$ 49.3 billion), 61.4% in 2015 (U.S.$26.7 billion) and 61.4% in 2016 (U.S.$ 17.4 billion).

Over the same period, exports to the Americas decreased from 26.9% of Iraq's total exports in 2012 (U.S.$25.3 billion) to 8.8% in 2016 (U.S.$2.5 billion), largely as a result of lower oil exports given the boom in U.S. oil production. Exports to the EU as a percentage of Iraq's total exports increased during the period under review from 16.8% of Iraq's total exports in 2012 (U.S.$15.8 billion) to 24.3% in 2016 (U.S.$6.9 billion). Exports to Arab countries ranged between for 3.3% of total exports in 2012 (U.S.$3.2 billion), and 5.3% in 2016 (U.S.$1.5 billion).

The following tables set forth certain information regarding Iraq's imports for the periods indicated. All data is calculated to reflect cost, insurance and freight ("**CIF**").

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**[1]
Category of Imports			*(U.S.$ millions)*		
Food and live animals	3,186	3,246	2,936	2,109	1,244
Beverages and tobacco	767	781	707	508	299
Inedible crude materials excluding fuels	1,062	1,082	978	703	414
Mineral fuels, lubricants and related materials[2]	5,783	5,891	5,328	3,826	2,257
Animals and vegetable oils and fats	3,776	3,847	3,479	2,499	1,474
Chemicals	3,954	4,027	3,643	2,616	1,543
Manufactured goods classified chiefly by material	6,727	6,852	6,198	4,451	2,625
Machinery and transport equipment	22,717	23,141	20,932	15,728	8,866
Miscellaneous manufactured articles	9,323	9,497	8,590	6,169	3,639
Commodities and transactions not classified according to kind	1,711	1,743	1,577	1,132	668
Total	**59,006**	**60,107**	**54,368**	**39,741**	**23,029**

Source: CBI.

(1) Data for 2016 is preliminary.
(2) Includes crude oil, refined products, sulfur and phosphates.

Iraq continues to be very dependent on foreign imports for consumption and investment goods. Large amounts of consumer and household goods are also brought across the border informally in the so-called "suitcase trade," which is mostly unrecorded. Iraq imports most food products, even though historically its agricultural sector was an important source of exports. Iraq's reliance on imports is likely to persist as domestic production is disrupted by security concerns and the delivery of public sector services continues to be challenging. See "*Risk Factors—Risk Factors Relating to Iraq—Iraq is dependent upon the import of refined oil products, food and capital goods, and as a result is vulnerable to global price fluctuations.*"

As of 2016, Iraq's first four imported good categories by value were: machinery and transport equipment (38.5% of total imports); miscellaneous manufactured articles (15.8% of total imports); manufactured goods (11.4% of total imports); and mineral fuels, lubricants and related materials (9.8% of total imports). All such proportions remained fairly constant during the 2012-2016 period.

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**[1]
Imports by Source			*(U.S.$ millions)*		
Arab countries	12,816	14,365	12,885	10,269	5,951
North and South America	4,190	3,366	3,588	2,512	1,455
European Union	5,918	6,612	6,905	4,757	2,757
Other European countries	4,691	4,568	3,480	2,623	1,520
Asia	31,102	30,414	27,184	19,508	11,305
Other	289	782	326	72	41
Total	**59,006**	**60,107**	**54,368**	**39,741**	**23,029**

Source: CBI.

(1) Data for 2016 is preliminary.

Since 2012 Iraq has been importing by far the most goods by value from Asia, followed by Arab countries, the European Union, non-EU European countries and North and South America.

Imports from Asian countries as a portion of Iraq's total imports remained relatively stable during the period under review and accounted for 52.7% of total imports in 2012 (U.S.$31.1 billion), 50.6% in 2013 (U.S. $30.4 billion), 50.0% in 2014 (U.S.$27.2 billion), 49.1% in 2015 (U.S.$19.5 billion) and 49.1% in 2016 (U.S.$11.3 billion). Iraq's imports from Arab countries accounted for 21.7% of its total imports in 2012 (U.S.$12.8 billion), before increasing in percentage terms to 23.9% in 2013 (U.S.$14.4 billion), 23.7% in 2014 (U.S.$12.9 billion), and 25.8% in 2015 and 2016 (U.S.$10.3 billion and U.S.$ 5.9 billion, respectively). Imports from EU countries as a portion of Iraq's total imports increased from 10.0% in 2012 (U.S.$5.9 billion), to 11.0% in 2013 (U.S.$6.6 billion), 12.7% in 2014 (U.S.$6.9 billion), before decreasing slightly in percentage terms to 12.0% in 2015 and 2016 (U.S.$4.8 billion and U.S.$2.8 billion, respectively).

Balance of Payments

The table below sets out certain information regarding Iraq's balance of payments for the periods indicated. The data below is stated according to BPM6. FOB amounts are calculated on the basis of a 15% discount to CIF amounts, to account for freight and insurance costs. Oil export revenues are based on cash payments received during the relevant period, not accruals. Balance of payment figures exclude payments to and from the KRG.

	Year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016[1]**
			(U.S.$ millions)		
Current Account:					
Trade Balance	44,053.6	38,677.1	37,768.4	9,661.8	8,785.3
Exports FOB	94,208.6	89,767.9	83,980.8	43,441.5	28,359.9
Imports FOB	50,155.0	51,090.8	46,212.4	33,779.7	19,574.6
Imports CIF	59,005.9	60,106.9	54,367.5	39,741.0	23,029.0
Services (net)	(10,458.8)	(12,202.8)	(12,053.5)	(7,696.4)	(5,458.7)
Primary Income (net)	1,059.2	(1,075.9)	(1,341.6)	(1,443.7)	(1,560.4)
Secondary Income (net)	(5,112.0)	(4,865.3)	(3,162.9)	542.2	1,005.5
Balance	**29,542.0**	**20,533.1**	**21,210.4**	**1,063.9**	**2,771.7**
Capital Account (net)	**6.6**	**20.3**	**(9.5)**	**(1.5)**	**(0.5)**
Financial Account (net):					
Direct investment (net)	(2,910.9)	3,489.9	10,580.5	7,900.0	6,215.5
Portfolio investment (net)	5,671.8	(14,915.4)	(4,326.5)	(626.6)	746.9
Assets	5,671.8	(14,074.9)	(4,301.4)	(641.7)	738.0
Liabilities	0.0	840.5	25.1	(15.1)	(8.9)
Other investments (net)	13,415.1	6,222.1	(432.4)	(18,217.1)	(18,253.3)
Reserve assets[2]	9,254.7	7,860.9	(11,879.9)	(13,473.6)	(8,670.0)
Balance	**25,430.7**	**2,657.5**	**(6,058.2)**	**(24,417.3)**	**(19,960.9)**
Net errors and omissions	**(4,117.9)**	**(17,895.9)**	**(27,259.1)**	**(25,479.7)**	**(22,732.1)**
Memorandum Items:					
Current Account balance /Nominal GDP[3]	13.6%	8.8%	9.0 %	0.6%	1.6%
Capital and Financial Account balance / Nominal GDP[3]	11.7%	1.1%	(2.6)%	(13.6)%	(11.6)%
Gross Foreign Reserves (millions of U.S.$ at period end)[4]	87,357.1	84,113.8	66,570.1	53,286.1	44,664.3
Average Market Exchange Rate (IQD/U.S.$)	1,233	1,232	1,214	1,247	1,275

Source: CBI.

(1) Data for 2016 is preliminary.
(2) Data reflects CBI reserves only.
(3) Current Account and Capital and Financial Account balances as a percentage of nominal GDP are based on nominal GDP figures as presented under "*Economy*."
(4) Data reflects Federal Government reserves and CBI reserves.

Current Account

Between 2012 and 2016, Iraq's current account has been in a structural surplus, driven by a trade balance surplus, which, in turn, is a result of Iraq's oil exports. The current account balance has decreased sharply since 2014, primarily due to the decrease in oil prices. Iraq's export earnings are derived almost exclusively from the export of oil, and are a function of average price per barrel and volume. The trade balance surplus decreased consistently during the period under review by 12.2%, 2.3%, 74.4% and 9.1% in 2013, 2014, 2015 and 2016, respectively. The fall in oil prices contributed to the contraction in the trade balance surplus between 2014 and 2016, although imports also decreased over the same period.

Iraq's trade balance surplus has been partly offset by the deficit recorded in the services account, which increased by 16.7% between 2012 and 2013, before decreasing by 1.2% between 2013 and 2014, by 36.1% between 2014 and

2015, and again by 29.1% between 2015 and 2016. The significant decrease in the deficit recorded in the service account since 2014 is a result of the contraction in spending triggered by falling oil prices.

Iraq's trade balance surplus has also been partly offset by the deficit recorded in the primary income account in recent years. The secondary income account deficit decreased between 2012 and 2014 and has since moved into surplus.

Iraq's current account surplus decreased by 30.5%, between 2012 and 2013, before increasing between 2013 and 2014, by 3.3%. The current account surplus decreased drastically by 95% in 2015 as a result of the decline in oil prices, before increasing in 2016. The surplus averaged 6.7% of GDP in the period between 2012 and 2016, decreasing from a peak of 13.6% of GDP in 2012.

Capital and Financial Account

The capital account has moved from a surplus in 2012-2013 to a deficit of U.S.$9.5 million, U.S.$1.5 million and U.S.$0.5 million in 2014, 2015 and 2016, respectively.

In the period between 2012 and 2016, Iraq's financial account balance recorded a considerable amount of variance, reflecting an unstable trend in capital inflows and outflows. In 2012 and 2013, the financial account recorded net outflows of U.S.$25.4 billion and U.S.$2.7 billion, followed by inflows of U.S.$6.1 billion, U.S.$24.4 billion, and U.S.$20 billion in 2014, 2015, and 2016, respectively.

Direct investments recorded a net inflow of U.S.$2.9 billion in 2012, before reversing trend to record constant net outflows in the 2013-2016 period reflecting payments made by the Federal Government to IOCs. The net outflow of direct investments reached a peak of U.S.$10.6 billion in 2014, before contracting slightly to U.S.$6.2 billion by 2016. Portfolio investments recorded net outflows of U.S.$5.7 billion in 2012, followed by net inflows in 2013 (U.S.$14.9 billion), 2014 (U.S.$4.3 billion) and 2015 (U.S.$0.6 billion), before returning to net outflows in 2016 (U.S.$0.7 billion). The significant net inflows in 2013 and 2014 were related to the listing on the ISX of Asia Cell, a mobile phone operator and the liquidation of the Federal Government's portfolio of U.S. treasury bills following the expiration of the specific immunity accorded to the oil proceeds receipt account held with the FRBNY, while the net outflows in 2012 and 2016 were caused by the Federal Government's investment in financial instruments abroad. Other investments, including trade credits, loans, currency deposits and other claims, recorded net outflows of U.S.$13.4 billion and U.S.$6.2 billion in 2012 and 2013, respectively, before recording a net inflow of U.S.$432.4 million in 2014. The net inflows rose to U.S.$18.2 billion in 2015 and remained steady at U.S.$18.3 billion in 2016.

CBI reserve assets grew by U.S.$9.3 billion in 2012, and by U.S.$7.9 billion in 2013, before contracting by U.S.$11.9 billion in 2014, U.S.$13.5 billion in 2015, and U.S.$8.7 billion in 2016, reflecting the use of reserves to fund the budget deficit.

Net Errors and Omissions

As a result of the double-entry system underlying the balance of payments, in principle the current account, on one hand, and the capital account and financial account, on the other hand, should net to a zero balance. The "Net Errors and Omissions" account records discrepancies between these amounts, allowing the balance of payments to balance from an accounting perspective. A high rate of errors and omissions may be expected in a country with limited data availability and relatively low administrative capacity; however, it may also indicate that substantial capital outflows are not recorded in official balance of payments data or that a significant amount of imports is not paid or recorded. In Iraq, imports are mostly not recorded at the borders and ports, and there are significant categories of imports not accounted for, including imports that are exempt from customs duty and imports into the Kurdistan region.

Errors and omissions have been significant in Iraq between 2012 and 2016, and have increased considerably in recent years, reaching a peak of U.S.$27.3 billion in 2014, before contracting slightly to U.S.$25.5 billion in 2015 and to U.S.$22.7 billion in 2016. The size of this account may also call into question the reliability of the other data.

Foreign Private Capital

Investment Law No. 13 of 2006, as amended (the "**Investment Law**") introduced a new investment regime in Iraq. The Investment Law was promulgated to stimulate economic and social development and technical and scientific know-how, develop human resources, and create employment opportunities, by encouraging and supporting investment projects in Iraq. The Investment Law's aims include: the promotion of investment in, and transfer of, modern technologies; the expansion and diversification of Iraq's production and service base; the protection of investors' rights and properties; the expansion of Iraq's exports; and the improvement of Iraq's balance of trade. The Investment Law does not apply to oil and gas extraction and production or to the bank and insurance sectors. The Investment Law was most recently amended in October 2015 with a view to facilitating foreign investment, including, under certain conditions, by allowing foreign investors to own land bought for investment purposes in Iraq.

The National Investment Commission

The Investment Law established the National Investment Commission (the "**NIC**"), headquartered in Baghdad. The NIC is responsible for drawing up national policies for investment, developing plans, regulations and guidelines relating to investment at a federal level, and monitoring the implementation of such regulations and guidelines. Under the Investment Law, the NIC is managed by a board of directors comprised of nine members, and the Chairman and Deputy Chairman are appointed by the Council of Representatives, upon nomination by the Council of Ministers, for a period of five years. The NIC has an independent annual budget with revenues deriving from the Federal Budget.

Pursuant to the Investment Law, the NIC draws up an overall national strategic policy for investment, identifying the most important sectors, and prepares a map of investment projects in Iraq and a list of investment opportunities in strategic and federal investment projects. The NIC promotes investment including by building confidence in the investment environment; identifying investment opportunities and promoting investment; simplifying procedures for registration, issuing project licenses, and following-up on projects; and providing information to investors. Amongst other projects, the NIC has been responsible for the implementation of the Besmayah Housing Project, which involves the creation of a new city approximately 35 kilometers south of Baghdad. The project would ultimately include 100,000 new housing units, along with the requisite infrastructure.

Under the Investment Law, investors can obtain licenses from the NIC for investment projects in Iraq, and the law sets forth guidelines for granting such licenses. The NIC may accept investment license requests for projects with a capital of not less than a certain minimum amount, and must obtain the approval of the Council of Ministers before granting a license if the value of the investment project is more than U.S.$250 million. Under the Investment Law, regions and governorates not organized in a region also form investment commissions, with the power to grant investment licenses for small-scale projects, while the NIC, in consultation with the relevant investment commission, remains responsible for projects with values over certain thresholds, which vary from sector to sector.

Investor Privileges, Facilitations and Guarantees

Under the Investment Law, each investor enjoys the privileges, facilitations and guarantees set out in the Investment Law. Any project for which an investment license has been obtained can benefit from a special tax regime. See "*Public Finance—Iraqi Tax System—Special Tax Regimes.*"

Under the Investment Law, foreign investors enjoy a number of rights, including: the right to take out capital brought into Iraq and any proceeds therefrom, subject to certain limitations; the right to exchange shares and bonds listed on the ISX, and to form investment portfolios in shares and bonds; the right to rent or lease lands for a project, subject to certain limitations; the right to insure the investment project with any foreign or national insurance company; and the right to open accounts in Iraqi or foreign currency at a bank inside or outside Iraq.

The Investment Law also expressly provides certain safeguards for investors, including: the right to employ non-Iraqi workers when it is not possible to employ Iraqis with the required qualifications (although priority must be given to Iraqi workers); the granting to foreign investors and non-Iraqis working on the investment project of the right of residency in Iraq; protection against seizure or nationalization of an investment project covered by the Investment Law, except if a final court judgment is issued; and the right of non-Iraqi technicians and administrative

employees working on a project to transfer their salaries and compensation outside Iraq in accordance with the law, after paying amounts due. In addition, the Investment Law expressly envisages foreign ownership of land for the purpose of developing residential real estate projects, subject to certain conditions.

Under the Investment Law, investors must, among other things, maintain proper accounting records and have them audited by a certified Iraqi accountant. Investors must submit, among other things, an economic and technical feasibility study along with the license application, and be available to provide information on the budget and project progress status. Investors must also keep a record of any duty-free items imported for the project. Investors must not harm the Iraqi environment and must adhere to all valid quality control systems in place in Iraq, as well as to international quality standards. Investment projects must comply with all Iraqi security, health, and public order statutes, and must respect the general values of Iraqi society. Investors must adhere to Iraqi labor laws as they pertain to salaries, time off, work hours, and other stipulated working conditions.

The Investment Law expressly indicates that, in addition to the provisions, rights and privileges contained in the Investment Law, foreign investors shall enjoy the rights and privileges under applicable international agreements entered into between Iraq and the relevant country, or pursuant to applicable multilateral international agreements to which Iraq is a party.

PUBLIC FINANCE

Overview

The Financial Management Law, adopted in 2004, sets out the fundamental rules on public finance and financial management in Iraq. It establishes a comprehensive framework for the conduct of fiscal and budgetary policy, and sets forth a structured process for the formulation of the general federal budget (the "**Federal Budget**"), as well as a number of reporting requirements to increase the accountability and transparency of the Federal Budget process. The MoF is granted the authority to issue regulations, instructions, guidelines or directions to give effect to, and to implement, the Financial Management Law.

Pursuant to Iraq's commitments under the SBA, on July 19, 2016, the Council of Ministers approved a new draft law on Public Financial Management (see "—*The Draft Public Financial Management Law*") and forwarded it to the Council of Representatives for final approval. Pending adoption of the draft law by the Council of Representatives, the existing 2004 Financial Management Law continues to be in force.

The Federal Constitution also contains a number of provisions related to the Federal Budget. While the Federal Constitution reserves the authority to formulate the draft Federal Budget to the Council of Ministers, it requires the Council of Representatives' approval of the draft bill. The Council of Representatives may carry out transfers between the sections and chapters of the Federal Budget, reduce total sums and suggest to the Council of Ministers that it should increase total expenses, when necessary. After the approval of the Council of Representatives, the annual Federal Budget Law is issued by the President of the Republic of Iraq and is published in the Official Gazette.

The Financial Management Law envisions three fundamental principles in the preparation and execution of the Federal Budget:

- the *principle of transparency*, pursuant to which Federal Budget information shall be classified according to accepted international standards and presented in a way that facilitates policy analysis and promotes accountability;

- the *principle of comprehensiveness*, pursuant to which the Federal Budget shall cover all government agencies and institutions undertaking government operations, in order to present a consolidated and complete view of operations, to be voted on, as a whole, by the Council of Representatives; and

- the *principle of unity*, pursuant to which all government resources shall be directed to a common pool to be allocated and used for public expenditure according to the government's priorities.

A Federal Budget is adopted for each fiscal year, beginning on January 1 and ending on December 31, and is valid during the year for which it is adopted. The Federal Budget comprises the revenues and payments, in cash or in kind, of all ministries, organizations and agencies of the Federal Government. It also sets forth transfers, including to regional governments, governorates, and municipal and local governments, and provides for special budgetary funds.

The Financial Management Law also envisages a treasury consolidated account, which is a system for consolidating the balances of the cash accounts of the Federal Government with the aim of improving the efficiency of cash management. Under the Financial Management Law, receipts are credited to the treasury consolidated account and paid into the treasury account at the CBI, whereas payments are debited to the treasury consolidated account and withdrawn from the treasury account at the CBI.

Federal Budget Preparation

Pursuant to the Financial Management Law, the preparation of the Federal Budget is based on projections of economic development, the pursuit of macroeconomic stability, economic policy, and applicable laws and regulations, having due regard to the sustainability of the fiscal position, minimizing fluctuations in spending, and efficient revenue collection. The Financial Management Law also requires the preparation of the Federal Budget to be based on prudent and conservative forecasts of the prices and production of hydrocarbons, including, but not

limited to, crude oil, natural gas, natural gas liquids and refined petroleum products, as well as tax and customs revenue. Projections for the preparation of the Federal Budget are prepared by the Ministry of Finance in consultation with the CBI and other ministries in their respective areas of competence.

In preparing the draft annual Federal Budget Law, the Financial Management Law expressly requires that a number of matters be considered, disclosed to the Council of Representatives and made publicly available among the documents accompanying the Federal Budget Law. These include among others: a statement of the objectives and operating rules for fiscal policy, and an explanation of how these objectives relate to the provisions in the Federal Budget Law; a comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the Federal Budget, including the assumptions for oil prices and oil production; new policies being introduced in the Federal Budget and their fiscal impact; and major fiscal risks, quantified where possible.

The Financial Management Law provides that the draft annual Federal Budget Law shall include, among other things, the estimated revenues and payments, the use of any surplus and the financing of any deficit, the contingency reserve, which shall be no greater than 5% of the non-interest expenditures of the Federal Budget, and a clear specification of the rules for the authorization of, and limits to, expenditure, including limits on borrowing and issuance of Federal Government debt securities. The draft Federal Budget Law will be accompanied by a report on the economic and financial situation, including the assumptions, methods and outcomes of the economic projections on the basis of which the draft annual Federal Budget is established, including actual revenues, expenditures, balance and total debt of the general government (including the Federal Government, regional governments, governorates, municipal and local governments) for the past two years. Under the Financial Management Law, the Federal Budget deficit can be financed by cash balances of the Federal Government, short-term borrowings, domestic and external loans, or by the issuance of Federal Government debt securities.

Pursuant to the Financial Management Law, all proceeds from the sale of hydrocarbons, including, but not limited to, crude oil, natural gas, natural gas liquids and refined petroleum products, or otherwise derived from current and prospective hydrocarbons extraction and from any amount paid in respect of a right to explore for hydrocarbon resources, after applying the deduction mandated by the UN primarily to compensate Kuwait for war damages incurred during the First Gulf War, accrue to the Federal Budget. See "*Monetary System—The Development Fund for Iraq*."

The budgets of public corporations are not incorporated into the Federal Budget. Under the Financial Management Law, public corporations are "State Companies," as defined in Law No. 22 of 1997 on State Companies, and any other legal person or unit that is owned or controlled by the Federal Government and produces goods or services for the market, and, in case of a unit that is not a legal person, functions independently and is capable of having separate accounting.

Pursuant to the Financial Management Law, the annual Federal Budget must determine the terms, conditions and limits on the annual increase in the total Federal Government, regional government and governorates debt, and establish the total amount of guarantees to be issued by the Federal Government, regional governments and governorates. Federal Government debt may be in the form of domestic and foreign loans, short-term borrowings and securities issues. Governorates and regional governments may, upon notification to the MoF, raise funds through borrowings and issue loan guarantees subject to the debt limit set in the annual Federal Budget Law and to the specific debt limit set for each entity under the apportionment approved by the Council of Ministers on the recommendation of the MoF. Under the Financial Management Law, the Federal Government sets limits for the guarantees issued by governorates and regional governments but does not guarantee them (unless expressly provided for by law). The Financial Management Law also requires regional governments and governorates to submit by August 31 estimates of outstanding borrowings, and borrowings to be raised in the forthcoming year for review and approval by the MoF. The Ministry of Finance will submit to the Council of Ministers for approval with the draft annual Federal Budget Law, the financial plan on loans, short-term borrowing, and the issuing of guarantees by the Federal Government, governorates and regional governments. The Ministry of Finance will submit to the Council of Ministers a report any time that the plan must be changed, and such changes must remain within the limits set by the Federal Budget. Pursuant to the Financial Management Law, the Ministry of Finance has the right, upon notification to the governorate or regional government concerned, to adjust the timing of the issuance of governorate or regional government debt approved in the plan on the basis of macroeconomic and debt policy considerations.

Federal Budget Timeline

The Financial Management Law envisages the following general timeline for the preparation of the Federal Budget:

- in May of each year, the MoF shall issue a report on the priorities for fiscal policy for the next fiscal year, including the proposed total limit on spending and the limits for each individual spending unit, and submit it to the Council of Ministers for approval, together with the final accounts of the Federal Budget of the previous year and an update on Federal Budget execution in the current year. The MoF shall consult with the Minister of Planning ("**MoP**") on priorities, estimates of total funding, and procedures for preparing the capital spending plan and current budgetary implications of capital expenditures, including those to be implemented or financed by external sources;

- in June of each year, the MoF, in consultation with the MoP, and based on the priorities for fiscal policy established by the Council of Ministers, shall issue a circular setting guidelines and objectives of fiscal policy for the spending units for the preparation of their budgets. The circular shall include key economic parameters, based on the macroeconomic framework, the procedures and timetable for budget preparation, as well as total levels of expenditure for each spending unit. This is the basis for the spending units to prepare budget requests;

- in July of each year, the spending units submit requests to the MoF for the allocation of funds. Copies of requests for the capital portion of the Federal Budget will also be submitted to the MoP. The MoF, in consultation with the MoP, shall, on the basis of the estimates of revenue and submitted budget proposals for the allocation of funds, and in the light of discussions with proposing ministers, determine estimated payments for the spending units for the Federal Budget, as well as amounts for the contingency reserve;

- in September of each year, the MoF shall prepare the draft annual Federal Budget and submit it to the Council of Ministers for approval; and

- by October 10 of each year, the annual Federal Budget must be submitted to the Council of Representatives for approval. The Council of Representatives has the right to reallocate proposed spending and reduce the total amounts in the Federal Budget. It also has the right to propose to the Council of Ministers an increase in the overall amount of expenditures, if necessary.

After the approval of the Council of Representatives, the annual Federal Budget Law is issued by the President of the Republic and published in the Official Gazette. Following the issuance of the annual Federal Budget Law, the MoF issues instructions for its implementation.

If the Federal Budget is not approved by the Council of Representatives by December 31, as was the case for the 2014 Federal Budget, the MoF will, on a monthly basis, approve funds for the spending units up to 1/12 (one-twelfth) of the previous fiscal year until the Federal Budget is approved. For example, in 2014, when a dispute with the KRG prevented the passage of the 2014 Federal Budget Law, the Federal Government operated on the basis of a modified version of the 2013 Federal Budget. In such case, the funds can be used only for existing commitments, salaries, pensions, social security payments and debt service.

The Federal Budget can be amended through a supplementary budget ("**Supplementary Budget**") if a significant and unexpected change in economic circumstances or national priorities occurs. A Supplementary Budget may be proposed by the Council of Ministers upon the MoF's recommendation, and approved by the Council of Representatives. The MoF shall, within eight weeks after recommending that the Council of Ministers adopt a Supplementary Budget, submit details of the draft Supplementary Budget to the Council of Ministers for approval. The Council of Ministers shall approve such recommendations, with any amendments, within two weeks. The draft Supplementary Budget approved by the Council of Ministers is submitted to the Council of Representatives within one week of the Council of Ministers' approval.

Federal Budget Execution Framework

The MoF is responsible for the execution of the Federal Budget. As a general rule, no payment can be made from the treasury consolidated account except pursuant to the Federal Budget or Supplementary Budget, another law, or in other limited cases. Spending units use the funds determined in the Federal Budget in accordance with a spending

plan approved by the MoF and generally cannot commit to making expenditures that exceed the amounts allocated. Contingency reserve funds may be used for payments that are urgent and unforeseen at the time the Federal Budget Law was passed, if approved by the Council of Ministers and the MoF, and reported to the Council of Representatives.

Under the Financial Management Law and in accordance with regulations prescribed by the MoF, spending units, governorates, and special budgetary funds submit reports to the MoF on realized revenues and executed payments within thirty days after the end of each month. By the fifteenth of the following month, the Ministry of Finance compiles a consolidated report on realized receipts and executed payments on the basis of the reports received, and makes it publicly available in the Official Gazette and other media, as appropriate. Funds approved for the spending units may be used only until December 31 of the relevant fiscal year, except to the extent that goods and services have been validly ordered and received. Receipts received after the end of a fiscal year will be recorded as receipts of the next fiscal year's Federal Budget.

The MoF is responsible, on behalf of the Federal Government, for the accounting, internal control, borrowing and debt transactions associated with the Federal Budget. The MoF prescribes internal control arrangements, accounting procedures and standards, the submission of reports on the usage of Federal Budget funds, and the manner of recording receipts, payments and commitments. The MoF may issue special orders to spending units, governorates, municipal and local governments, and other budget entities, for their submission of financial reports, and prescribes the submission of the final accounts of the spending units, including regional governments, governorates, municipal and local governments, and other budget entities.

The documentation and timeline required by the Financial Management Law in respect of the execution of the Federal Budget include the following: the MoF shall submit to the Council of Representatives, by May 31 and November 30 each year, quarterly reports (in respect of the first and third quarter, respectively) on the execution of the Federal Budget revenue, expenditures and financing. The MoF shall also submit to the Council of Representatives, by August 31 each year, a mid-year report on the execution of Federal Budget revenue, expenditures and financing.

The Federal Budget and any Supplementary Budget are subject to annual audits by BOSA. See "*Description of the Republic of Iraq—The Federal Government—The Board of Supreme Audit*." The MoF shall prepare the annual final accounts of the Federal Budget and submit them to the BOSA by April 15 of each year, in respect of the execution of the Federal Budget of the previous year, and the BOSA shall provide its audit report by June 15. The Council of Ministers shall then submit the final accounts and the related audit report to the Council of Representatives by June 30 each year, and, after approval by the Council of Representatives, the final accounts shall be published in the Official Gazette and made publicly available. The Council of Representatives has recently approved the final accounts up to 2013, but it has not approved them for subsequent years.

The final accounts of the Federal Budget must be in line with the content and classifications of the Federal Budget and international accounting standards, and include the following: the initial and final balance of the treasury consolidated account and a summary of movements for the year; a report on differences between budgeted and executed receipts and payments, and on the financing of any deficit or the use of any surplus; a report of all Federal Government borrowings for the year and the total debt outstanding, including any payment arrears; a report of spending from the budget contingency reserves; a report on Federal Government guarantees issued during the fiscal year; and a report prepared by the MoF of all borrowings by regional governments and governorates, as well as a report prepared by the MoF on all guarantees by regional governments and governorates. The MoF shall prescribe the manner and procedures by which ministries, spending units and public corporations undertake internal audits, and is responsible for ensuring that the internal audit process is conducted in accordance with these rules and procedures. Under the Financial Management Law, the internal audit function includes: providing regular assessments of the adequacy and effectiveness of the ministries' decision-making processes and internal controls; reporting significant internal control issues and improving the control processes and information system to minimize risk in the decision-making process; reviewing the efficiency and effectiveness of the use of existing services, and proposing more efficient ways of providing these services; and providing periodically information on the status of the annual audit plan.

The Draft Public Financial Management Law

The draft law on Public Financial Management ("**Draft PFML**") aims to enhance the process of the preparation and implementation of the Federal Budget, and improve the transparency and accountability framework with respect to public funds. Under the Draft PFML, the MoF is required to prepare a medium-term Federal Budget covering a period of three years, to be submitted at one time and approved. The first year of the Federal Budget is compulsory, and the Council of Ministers may, upon the recommendation of the MoF, revise the Federal Budget for the second and third years up to a maximum of 20%. Under the Draft PFML, the deficit in the planning Federal Budget (in other words, budgets for years for which a Federal Budget Law has not been passed) may not exceed 3% of GDP. However, no such limit applies to actual Federal Budget Laws allowing more flexibility in light of short-term revenue and expenditure priorities.

Beginning March of each year, the MoF is required to prepare a report on priorities for fiscal policy and strategy, government programs, and the general recommendations for federal budget policies covering a period of three or more years, and must submit it to the Economic Affairs Committee of the Council of Ministers ("**EAC**"). The EAC, with the assistance of experts from various ministries and the private sector, shall review and discuss the report and submit it to the Council of Ministers by the end of May. The report will serve as a basis for preparing the budget for subsequent years. In June of each year, the Ministry of Finance and the Ministry of Planning are required to prepare guiding principles, in view of the fiscal policy objectives established in the approved report, with a clarification of the principal economic benchmarks based on the national development plan, macroeconomic indicators, and the required measures and timetable for preparing the budgets indicating the maximum limits for current and investment expenditures for each spending unit.

Furthermore, the Draft PFML imposes a requirement on the Ministry of Trade to prepare an external trade plan in coordination with the CBI. The Ministry of Trade must discuss such plan with ministries, agencies not attached to a ministry, regions and governorates not attached to a region, and must submit it to the EAC for discussion and integration into the draft federal budget. Similarly, the CBI is required to prepare a report on the foreign exchange budget and a plan for the supply of the national currency and submit the same to the EAC for discussion and integration into the draft federal budget. The Draft PFML further empowers the MoF to add any requirements to the draft federal budget as necessary. The Council of Ministers is required to review and approve a draft Federal Budget law prepared by the MoF, and submit to the Council of Representatives by November of each year.

Under the Draft PFML, the surplus of oil and gas revenues may be invested in reliable foreign financial assets. In addition, under the Draft PFML, if any ministry, region or governorate not attached to a region fails to transfer oil and gas revenues or other revenues, the Ministry of Finance must deduct the amount owed from the relevant budget allocations.

It should also be noted that, unlike the current Financial Management Law, the Draft PFML does not contemplate amendment of the Federal Budget by issuance of Supplementary Budgets. The Draft PFML is currently being reviewed by parliamentary committees, and certain amendments may be introduced to it prior to any final adoption by the Council of Representatives.

Public Accounts

The table below sets out a summary of Iraq's revenues and expenditures for the periods indicated.

	Year ended December 31,				Quarter ended March 31,
	2013	**2014**	**2015**	**2016 [3]**	**2017[3]**
Revenues and Expenditures[1], [2]			(*IQD trillions*)		
Total revenues	**115.4**	**104.4**	**63.5**	**55.5**	**17.2**
Oil	105.7	98.5	57.7	47.2	15.4
Non-oil	9.7	5.9	5.8	8.3	1.7
Tax revenues	2.9	2.5	1.4	5.2	N/A
Non-tax revenues and grants	6.8	3.3	4.4	3.0	N/A
Total expenditures	**131.2**	**119.0**	**89.3**	**84.1**	**17.6**
Current expenditures	83.7	69.9	57.6	61.1	14.1
Salaries (defense and interior)	8.1	14.2	14.4	15.2	N/A
Salaries (other)	24.5	17.6	18.7	17.2	7.8[4]
Pensions	8.6	8.4	9.0	9.3	2.8
Goods and services	16.3	9.7	4.7	4.8	1.3
Transfers	20.0	14.3	9.5	13.2	1.3
Social safety net	7.6	7.6	4.5	6.1	0.5
Transfers to SOEs	1.9	1.5	2.4	2.7	0.4
Other transfers	10.5	5.2	2.6	4.4	0.5
Interest payments	1.0	0.7	1.3	1.4	0.9
Payments under UNSC 1483	5.2	4.9	0.0	0.0	0.0
Investment expenditures	47.6	49.2	31.6	23.1	3.6
Non-oil investment	32.3	25.4	12.6	8.4	0.6
Oil investment	15.3	23.8	19.1	14.7	2.9
Deficit	**15.8**	**14.6**	**25.8**	**28.6**	**0.5**

Source: Iraqi authorities' estimates; CSO.

(1) All figures in this table are unaudited.
(2) Revenue and expenditure items follow categories employed by the IMF Staff in connection with the SBA.
(3) Data for 2016 and quarter ended March 31, 2017 is preliminary.
(4) This figure includes the salaries of the Ministry of Defense and the Ministry of Interior.

Deficit Financing

The table below sets out a summary of sources of financing for Iraq's Federal Budget deficit for the periods indicated.

	Year ended December 31,				Quarter ended March 31,
	2013	2014	2015	2016 [2]	2017[2]
Deficit financing[1]			(*IQD trillions*)		
External financing	**12.7**	**6.5**	**4.2**	**2.1**	**0.2**
Loans from international financial institutions	0.0	0.0	2.8	3.2	0.0
Bilateral loans	0.0	0.0	0.0	0.3	0.0
Eurobonds	0.0	0.0	0.0	0.0	1.2
Project loans	0.0	0.0	0.3	2.3	0.3
Amortization	(1.1)	(1.8)	(1.6)	(1.1)	(0.4)
Assets held abroad	13.8	(0.1)	0.0	0.0	0.0
SDR holdings	0.0	0.0	2.2	0.0	0.0
Account payables	0.0	7.9	(4.8)	(0.3)	0.1
Arrears	0.0	0.6	5.3	(2.3)	(0.9)
Domestic financing	**4.5**	**12.5**	**21.6**	**26.5**	**0.3**
Treasury bills, bonds and other financing	4.2	3.5	10.1	16.7	0.1
Commercial bank financing	0.3	1.2	7.9	4.6	0.2
Loans	0.3	1.2	7.9	0.0	0.2
Deposits	0.0	0.0	0.0	4.6	0.0
Non-bank financing	0.0	0.0	0.0	2.0	0.0
Account payables	N/A	N/A	(0.1)	1.8	0.0
Arrears	0.0	1.8	3.7	1.5	0.0
Deficit	**15.8**	**14.6**	**25.8**	**28.6**	**0.5**
Statistical discrepancy	**(1.3)**	**(4.4)**	**0.0**	**0.0**	**0.0**

Source: Iraqi authorities' estimates; CSO.

(1) All figures in this table are unaudited.
(2) Data for 2016 and quarter ended March 31, 2017 is preliminary.

Federal Revenues

Total revenues decreased by 9.5% between 2013 and 2014, from IQD 115.4 trillion to IQD 104.4 trillion. In 2015, total revenues decreased by 39.2% to IQD 63.5 trillion, compared to the previous year. The amount of revenues further decreased by 12.6% in 2016, to IQD 55.5 trillion compared to the previous year. Total revenues as of March 31, 2017 amounted to IQD 17.2 trillion.

Oil Revenues

Oil export revenues constitute the principal source of Federal Government revenues, rendering the Federal Budget sensitive to oil price volatility. In 2016, oil sector export revenues accounted for approximately 99% of export revenues. See "*Risk Factors—Risk Factors Relating to Iraq—Iraq depends on oil exports for substantially all of its foreign exchange revenues and for the large majority of its Federal Budget*" and "*Foreign Trade and Balance of Payments—Foreign Trade—Imports and Exports*."

The Federal Budget adopts a single oil reserve price to budget oil revenues, which makes the achievement of budgeted revenues uncertain in light of fluctuating oil prices.

Oil revenues decreased by 6.8% between 2013 and 2014, to IQD 98.5 trillion, and by 41.4% between 2014 and 2015, to IQD 57.7 trillion, and further contracted by 18.2% between 2015 and 2016, to IQD 47.2 trillion. In 2013, 2014, 2015 and 2016, oil revenues constituted, respectively, 91.6%, 94.3%, 90.9% and 85.0% of total revenues. As of March 31, 2017, oil revenues amounted to IQD 15.4 trillion, equal to 89.5% of total revenues in the quarter ended March 31, 2017. The ability of Iraq to achieve budgeted revenues may be constrained as a result of the recent OPEC curtailment agreement. See "*Risk Factors—Risk Factors Relating to Iraq—Iraq depends on oil exports for*

substantially all of its foreign exchange revenues and for the large majority of its Federal Budget" and "*The Economy—Principal Sectors Of The Economy—The Oil and Gas Sector—Production and Exports*."

Taxes

Tax revenues decreased by 13.8% between 2013 and 2014, from IQD 2.9 trillion to IQD 2.5 trillion, and by 44.0% between 2014 and 2015 to IQD 1.4 trillion. Between 2015 and 2016, tax revenues increased by 271.4% to IQD 5.2 trillion, representing 9.4% of total Federal Government revenues in 2016.

Federal Expenditures

Current Expenditures

As a legacy of the heavily centrally-planned system prior to 2003, Iraq's economy continues to be dominated by a large public sector, despite efforts to promote the development of the private sector and a market-based economy.

Due to the large public sector, current expenses dominate the Federal Government's expenses. In 2013, current expenses amounted to IQD 83.7 trillion, representing 63.8% of the total expenditures in 2013. Current expenditures then decreased by 16.5% between 2013 and 2014, to IQD 69.9 trillion, and by 17.6% between 2014 and 2015, to IQD 57.6 trillion. Between 2015 and 2016, current expenses increased by 6.1% to IQD 61.1 trillion. As of March 31, 2017, current expenditures amounted to IQD 14.1 trillion. Current expenditures have represented a growing share of overall expenditures, reaching 72.7% of overall expenditures in 2016, as current expenditures contracted less rapidly than investment expenditures.

The largest share of operational expenses is apportioned to compensation to public sector employees (salaries), equal to IQD 32.6 trillion, IQD 31.8 trillion, IQD 33.1 trillion and IQD 32.4 trillion in 2013, 2014, 2015 and 2016 respectively. Salaries and pensions accounted for 49.2%, 57.5%, 73.1% and 68.2% of total current expenses, and 31.4%, 33.8%, 47.1% and 49.6% of total expenditures, in 2013, 2014, 2015 and 2016 respectively. In the first quarter of 2017, salaries and pensions together amounted to IQD 10.6 trillion, accounting for 75.2% of total current expenses and 60.2% of total expenditures in the first quarter of 2017.

Despite decreases in spending overall, as the Federal Government ramped up its military campaign against Daesh, the Federal Government has increased its spending on salaries for the Ministry of Defense and the Ministry of the Interior, rising from IQD 8.1 trillion in 2013 to IQD 15.2 trillion in 2016.

Investment Expenditures

The Federal Government aims to increase development in the energy sector, in order to increase oil revenues, to reduce imports of refined products and to increase gas processing and production to provide fuel for power generation.

Investment expenditures increased by 3.4% between 2013 and 2014, to IQD 49.2 trillion in 2014. However, investment expenditures decreased to IQD 31.6 trillion in 2015 and to IQD 23.1 trillion in 2016, primarily as a result of the overall contraction in investment spending in light of sharply declining Federal Government revenues. Investment expenditures accounted for 36.3%, 41.3%, 35.4% and 27.5% of overall expenditures in 2013, 2014, 2015 and 2016 respectively. In the first quarter of 2017, investment expenditures amounted to IQD 3.6 trillion, accounting for 20.5% of the total expenditures in the first quarter of 2017. The decreasing share reflects the Federal Government's prioritization of current spending, in particular salaries and pensions. Between 2012 and 2016, decreased non-oil investments accounted for almost the entirety of the decline in investment expenditures, reflecting the importance placed on investment in the vital oil sector.

Procurement

Procurement is critical to supporting the reconstruction and development agenda of the Federal Government. Federal Government procurement is governed by CPA Order No. 87 of 2004, as supplemented by instructions prescribed by the Ministry of Planning in 2014 (Instruction No. 2 of 2014). Order No. 87 prescribes a multi-phase process for awarding contracts, including pre-tender preparations, tender and evaluation processes, and post-award contract management. In the pre-tender phase, the process requires comprehensive feasibility studies before

introducing a specific project in the Federal Budget's investment expenditures. The Ministry of Planning's instructions require such studies to include a cost-benefit analysis, project design models, cost estimates and a quantitative analysis in accordance with the Ministry of Planning's guidelines and subject to its approval.

For the subsequent tender phase, the Ministry of Planning's instructions require an updated cost estimate to be prepared by technical experts and based on a comprehensive analysis of market prices. CPA Order No. 87 favors "full and open competitive public contracting procedures" with sufficient and widespread notice, except for limited conditions or exceptional circumstances identified in the implementing regulations. The Ministry of Planning's instructions prescribe various procedures for public contracting, including the solicitation of offers directly from at least three parties and a number of tender offer processes, such as public tender offers, limited tender offers, multi-stage tender offers and tender offers with technical qualification stages. The solicitation of a single offer or direct contracting are allowed in limited circumstances, such as for goods and services provided by a monopolist or under exceptional circumstances that involve Iraq's safety and sovereignty.

CPA Order No. 87 and the Ministry of Planning's implementing instructions also envisage the creation of specific committees and include provisions to prevent conflicts of interest. For example, ministers and officials substantially involved in a particular tender are restricted for a reasonable time from seeking post-Federal Government employment with an offeror awarded the contract or a party charged with the administration or monitoring of such contract. The contract execution phase is subject to controls to limit fraud, and a centralized commission with representatives from the Ministry of Planning examines requests for extensions, contract amendments and other complaints. The Ministry of Planning's regulations also require certain financial guarantees for proper contract execution and impose penalties for execution delays ranging from 10% to 25% of the value of the contract.

Despite a relatively comprehensive framework, Federal Government procurement continues to suffer from long authorization processes, fraud and lack of effective controls. The Federal Government's anti-corruption efforts seek to address procurement delays and improve the procurement process.

Federal Budget Execution

Federal Budget execution remains a challenge for the Federal Government due to a series of factors, including delays in approving the Federal Budget, contractual problems, inefficiencies in project implementation, poor planning, delays in land allocation, uncertain oil export revenues, lack of security and difficulties arising from the conflict with Daesh.

Financial decentralization has also proved a challenge to Federal Budget execution. Items related to financial decentralization have been difficult to execute in light of disagreements over the application of decentralization in the federal system and lack of clarity in the law.

In 2012, the BOSA reported that the Federal Government executed its investment budget at a rate of 56%, spending IQD 29.3 trillion out of IQD 52.5 trillion. Over the years 2011-2013, the BOSA noted wide discrepancies among various Federal Government agencies in executing their investment budgets, whereby rates ranged from as low as 23% in certain agencies to over 100% in others.

In its 2014 annual report, the BOSA summarized its findings on the execution of the prior year's Federal Budget and reported certain faults. First, it noted that various spending units expended amounts or entered into commitments that were not specifically provided for in their budgets. It also noted that some expenditures exceeded their budgeted amounts, and found that some excess expenditures were actually accounted for in other categories to avoid reporting over-expenditures. The BOSA also reported that Federal Budget execution rates for operational expenditures was low for several spending units, which could be attributed to exaggerated operational cost estimates. It further found that certain amounts allocated for investment expenditures were in fact spent on operational expenditures. It also reported inaccuracies in cost estimates for investment expenditures, as well as the inclusion of certain projects among the investment expenditures that should have been categorized as operational expenditures. The BOSA's report includes tables with specific examples of the aforementioned findings.

Major highlights of the 2014, 2015 and 2016 Federal Budgets

2014 Federal Budget

In 2014, a dispute with the KRG over crude oil exports prevented the passage of the 2014 Federal Budget Law and the Federal Government had to operate on the basis of a modified version of the 2013 Federal Budget. See "*The Economy—Principal Sectors of the Economy—The Oil and Gas Sector—Oil and Gas Production in the Kurdistan Region.*" Under the Financial Management Law, in such cases the MoF approves, on a monthly basis, funds for each spending unit up to 1/12 (one twelfth) of the previous fiscal year's Federal Budget for that unit until a new Federal Budget is approved. See "*—Federal Budget Timeline.*" In addition, the funds so provided can be used only for existing commitments, salaries, pensions, social security payments and debt service.

As a consequence, the lack of a Federal Budget Law in 2014 resulted in an increased bureaucratic burden and in the Federal Government's inability to plan and commit to new projects that were not previously accounted for in the 2013 Federal Budget. The Federal Government was also faced with increased expenditures in the defense sector relating to its fight against Daesh, and lower revenues due to falling oil prices and loss of control over certain territories. This in turn led to a slowdown in investment expenditures, activities and projects, and had an impact on slowing Iraq's economy.

Total revenues in 2014 amounted to IQD 104.4 trillion, while total expenditures reached IQD 119.0 trillion, resulting in a deficit of IQD 14.6 trillion.

2015 Federal Budget

The 2015 Federal Budget was adopted by the Council of Representatives on January 29, 2015 and was published on February 16, 2015. It provided for revenues of IQD 94.0 trillion, expenditures of IQD 119.5 trillion and a deficit of IQD 25.4 trillion. The 2015 Federal Budget assumed an average oil exports rate of 3.3 million barrels per day, at an average price of U.S.$56 per barrel, which included the 250,000 barrels per day required to be delivered by the KRG to SOMO and the 300,000 barrels per day to be produced in the Kirkuk governorate and transported by the KRG and delivered to SOMO. See "*The Economy—Principal Sectors of The Economy—Oil and Gas Sector—The Oil and Gas Production in the Kurdistan Region*." In return, the 2015 Federal Budget provided the KRG with a 17% share of overall Federal Government expenditures, to be calculated after subtracting certain sovereign expenses. Deliveries by the KRG to SOMO were below contemplated levels and essentially stopped after June 2015, and budget allocations to the KRG were accordingly reduced.

As a result of the decrease in oil prices, actual revenues in 2015 amounted to IQD 63.5 trillion while expenditures amounted to IQD 89.3 trillion, resulting in a recorded deficit of around IQD 25.8 trillion.

2016 Federal Budget

The 2016 Federal Budget was adopted by the Council of Representatives on December 16, 2015 and was published on January 18, 2016. It provided for revenues of IQD 81.7 trillion, expenditures of IQD 105.9 trillion and a deficit of IQD 24.2 trillion. The 2016 Federal Budget assumed an average oil price of U.S.$45 per barrel and an average oil exports rate of 3.6 million barrels per day, and included the same assumptions as those made under the 2015 Federal Budget regarding the number of barrels per day required to be delivered by the KRG to SOMO and those to be produced in the Kirkuk governorate and transported by the KRG and delivered to SOMO. Deliveries by the KRG to SOMO were substantially below those contemplated in the 2016 Federal Budget, and allocations to the KRG were accordingly reduced.

As a result of the continued decrease in oil prices, actual revenues in 2016 are estimated to amount to IQD 55.5 trillion, and expenditures are estimated to amount to IQD 84.1 trillion, resulting in a recorded deficit of around IQD 28.6 trillion.

2017 Federal Budget

The table below sets out a summary of Iraq's budgeted revenues and budgeted expenditures under the 2017 Federal Budget. The Council of Representatives has recently adopted the 2017 Supplementary Budget, which upon being

signed into law by the President of Iraq and published in the Official Gazette of Iraq, will amend the 2017 Federal Budget. See "*—The 2017 Supplementary Budget*."

	2017 Annual Federal Budget
Revenues and expenditures	*(IQD billions)*
Total revenues	**79,011.4**
Oil and mining revenues	67,950.2
Capital and income tax	3,451.2
Commodities taxes and production fees	1,995.2
Fees	688.8
Public sector profits	886.9
Capital revenues	125.1
Transfer revenues	2,809.6
Other revenues	1,104.4
Total expenditures	**100,671.2**
Payroll	35,772.8
Services	1,296.3
Goods	5,500.0
Asset maintenance	322.9
Capital expenditures	194.9
Grants and debt services	15,234.9
Commitments and contributions	634.6
Special programs	613.9
Social welfare	15,646.9
Investment projects	25,454.0
Deficit	**21,659.7**

Source: The 2017 Federal Budget Law.

The 2017 Federal Budget Law was published on January 9, 2017. The 2017 Federal Budget provided for revenues of IQD 79.0 trillion, based on an assumed average oil export price of U.S.$42 per barrel and average oil exports of 3.75 million barrels per day, and an exchange rate of IQD 1,182 per U.S.$1 dollar. Similarly to the 2015 and 2016 Federal Budgets, the 2017 estimate of oil exports included the 250,000 barrels per day that the KRG is required to deliver to SOMO and the 300,000 barrels per day that the KRG is required to transport for delivery to SOMO, in return for a 17% share of the overall Federal Government expenditures (net of certain sovereign expenses) to be allocated to the KRG. See "*The Economy—Principal Sectors of The Economy —Oil and Gas Sector—The Oil and Gas Production in the Kurdistan Region*."

However, following calls for the reduction of KRG's share in light of the region's population, Article 10 of the 2017 Federal Budget provided that the KRG's share will be revised in 2018 following the completion of a national census scheduled to take place in 2017. The 2017 Federal Budget also provided the Peshmerga security forces with a portion of the Federal Army's share of Federal Government expenditures. It further provided that the failure of the KRG to fulfill its commitment to export through SOMO and to transport the agreed quantities as stipulated in the 2017 Federal Budget Law, and/or failure to pay its employees from the budget allocated thereto as provided in the 2017 Federal Budget, will result in a commensurate reduction in the budget allocations to be made to the KRG. Deliveries by the KRG to SOMO have been significantly below the contemplated level in 2017, and budget allocations have accordingly been reduced.

Overall budgeted revenues for the 2017 Federal Budget (IQD 79.0 trillion) were lower than budgeted revenues for 2016 (IQD 81.7 trillion). Oil and mining revenues were budgeted at IQD 68.0 trillion, constituting 86.0% of total revenues of the 2017 Federal Budget. This amount was lower than the budgeted oil and mining revenues for 2016, equal to IQD 69.8 trillion. Preliminary data for the first quarter of 2017 showed revenues of IQD 17.2 trillion in comparison to the budgeted revenues for fiscal year 2017 of IQD 79.0 trillion.

With the aim of increasing non-oil revenues, the 2017 Federal Budget established new taxes and levies, such as a 3.8% withholding tax to be applied to the wages and benefits of government and public sector employees and retirees, and airport fees in the amount of IQD 10,000 for each domestic flight air ticket, which come in addition to the airport fees on international air tickets introduced by the 2016 Federal Budget Law. The Federal Government has generally expressed its intention to improve collections of customs duties and fees, including through sales taxes and a new stamp levy, as well as through the enforcement of the Customs Tariff Law. The Ministries of Electricity, Telecommunications and Municipalities, and Public Works have an essential role in this regard, and are under an obligation to ensure the proper enforcement and performance of fee collections. See "*—Iraqi Tax System—Customs Duties and Sales Tax*."

The 2017 Federal Budget provided for IQD 100.7 trillion of expenditures and a deficit of IQD 21.7 trillion. IQD 25.4 trillion, equal to 25.3% of overall budgeted expenditures for 2017, was to be spent on "investment projects." Among budgeted expenditures, payroll continued to account for a large part, equal to IQD 35.8 trillion in 2017, compared to IQD 39.1 trillion in 2016. Budgeted expenditures for "social welfare" in 2017 amounted to IQD 15.6 trillion, compared to IQD 17.7 trillion in 2016.

Preliminary data shows that in the first quarter of 2017, the Federal Government executed 14.1% of the overall investment budget for 2017 and 18.7% of the overall operational budget for 2017.

The 2017 Federal Budget anticipated financing the budgeted deficit of IQD 21.7 trillion through a number of measures, including drawing on foreign and domestic loans and cash in the Ministry of Finance's account. Specifically, the 2017 Federal Budget expected financing the deficit as follows:

- IQD 1.0 trillion from the balance of ministries' and independent bodies' accounts held with state-owned banks;
- IQD 1.0 trillion from the available balance in the Ministry of Finance's account;
- IQD 1.3 trillion from national bonds to be issued to the public;
- IQD 2.4 trillion from bonds issued abroad;
- IQD 7.5 trillion from the internal banking market, consisting of IQD 2.0 trillion from the issuance of bills to commercial banks, as well as IQD 5.5 trillion from bonds and treasury bills to be issued to state-owned banks and acquired by the CBI pursuant to the discount window. See "*Public Debt and Related Matters—Internal Public Debt*"; and
- Concessionary loans for a total amount of IQD 8.6 trillion, including IQD 2.0 trillion from the IMF, IQD 2.3 trillion from the World Bank, and the remainder from various U.S., European Union, Japanese and other governmental or multilateral financing sources, some of which are intended to fund specific infrastructure developments.

The 2017 Federal Budget maintained the various austerity measures that were introduced in the 2015 and the 2016 Federal Budgets, and added further measures in an effort to curtail the Federal Government's operational expenditures. Similarly to its 2015 and 2016 predecessors, the 2017 Federal Budget cut back on certain benefits to public officials and certain other expenditures allocated to ministries and other public offices. Further, the 2017 Federal Budget introduced a four-year voluntary paid leave scheme for Federal Government and public sector employees. Employees who choose to participate in the scheme will receive their basic salary for four years. Article 22 offers public sector employees who transfer to the private sector half of their basic salary for two years.

Pursuant to Article 45 of the 2017 Federal Budget Law, the Ministries of Finance and Planning issued instructions on the implementation of the 2017 Federal Budget, which emphasize compliance with financial management and procurement laws and regulations in executing the Federal Budget. The instructions require ministries and agencies to submit certain financials to the Ministry of Finance on a monthly basis, as well as their final accounts. The regulations also include specific instructions on reporting revenues and expenditures, procurement, spending, reallocations, compliance with spending limits, capital expenditures, public sector hiring, contracting and financial decentralization matters. The instructions further specify the powers and privileges of ministers and heads of agencies in executing their applicable budgets.

Following the adoption of the 2017 Federal Budget, a number of loans from various lenders, including Japan and Britain, were approved, and in January 2017, the Republic issued U.S.$1 billion principal amount of notes due 2022 guaranteed by the United States, acting through the United States Agency for International Development. See "*Public Debt and Related Matters—External Public Debt*."

The 2017 Supplementary Budget

On July 24, 2017 the Council of Representatives passed the 2017 Supplementary Budget which proposes a number of changes to the 2017 Federal Budget. The 2017 Supplementary Budget has been sent to the President of Iraq for signing into law, and will come into effect upon publication in the Official Gazette of Iraq. The table below sets out a summary of Iraq's budgeted revenues and budgeted expenditures for 2017 under the 2017 Supplementary Budget.

	2017 Supplementary Budget
Revenues and expenditures	*(IQD billions)*
Total revenues	**82,069.7**
Oil revenues	71,833.1
Non-oil revenues	10,236.6
Total expenditures	**107,089.5**
Current expenditures	78,557.8
Investment expenditures	28,531.7
Investment expenditures financed by the treasury	24,028.1
Investment expenditures financed by external debt	4,503.6
Deficit	**25,019.9**

The 2017 Supplementary Budget anticipates overall revenues of IQD 82.1 trillion, compared to budgeted revenues of IQD 79.0 trillion under the 2017 Federal Budget, based on the assumption that oil will be exported at an average price of U.S.$44.4 per barrel (representing the assumed price for crude oil exported from Iraq), and an exchange rate of IQD 1,182 per U.S.$1. This average oil export price assumption is higher than the U.S.$42 per barrel average oil export price contemplated under the 2017 Federal Budget. The assumptions with respect to export volumes are unchanged from the 2017 Federal Budget at 3.75 million barrels of oil per day (including the 250,000 barrels per day that the KRG is required to deliver to SOMO and the 300,000 barrels per day that the KRG is required to transport for delivery to SOMO). Expenditures are expected to amount to IQD 107.1 trillion, a 6.4% increase from the budgeted expenditures of IQD 100.7 trillion under the 2017 Federal budget, resulting in a budgeted deficit of IQD 25.0 trillion, a 15.5% increase from the budgeted deficit of IQD 21.7 trillion under the 2017 Federal Budget.

Based on the assumed export price and the targeted expenditures in the 2017 Supplementary Budget, the budget allocation to the KRG would be slightly higher than the revenues from the crude oil it is required to deliver to SOMO. If the KRG fails to deliver the required volumes of crude oil to SOMO, its budget allocations will be reduced. See "*The Economy—Principal Sectors of the Economy—The Oil and Gas Sector—Oil and Gas Production in the Kurdistan Region*." As noted above, thus far in 2017 deliveries by the KRG have been substantially lower than the contemplated volumes, and budget allocations to the KRG have accordingly been reduced.

Oil revenues are budgeted at IQD 71.8 trillion, constituting 87.5% of the total budgeted revenues in the 2017 Supplementary Budget, representing a 5.7% increase from the budgeted oil revenues of IQD 68.0 trillion under the 2017 Federal Budget. This increase is the result of the increase in the budgeted average price from U.S.$42 to U.S.$44.4 per barrel. Revenues expected from capital and income tax have been reduced by 3.7% to IQD 3.3 trillion, and revenues anticipated from commodities taxes and production fees have been reduced by 2.6% to IQD 1.9 trillion.

Non-oil revenues are budgeted at IQD 10.2 trillion in 2017, representing a 7.5% decrease from the budgeted non-oil revenues of IQD 11.0 trillion under the 2017 Federal Budget.

In order for revenues to be equal to budgeted expenditures, the average price would have to increase to approximately U.S.$60 per barrel, assuming no change in non-oil revenues. Because the oil price has been below this level thus far in 2017, a substantial increase in the oil price would be required to achieve this average price. Moreover, if there is a sharp increase in the oil price, it is possible that the Council of Ministers will decide to increase expenditures (with an additional Supplementary Budget, to the extent necessary), rather than allowing the deficit to fall to zero. Accordingly, there can be no assurance that an increase to or above this average oil price would result in a balance of actual revenues and expenditures.

IQD 28.5 trillion, equal to 26.6% of the overall budgeted expenditures under the 2017 Supplementary Budget, will be spent on investment, compared to IQD 25.4 trillion under the 2017 Federal Budget. The increase in investment expenditures as compared to the 2017 Federal Budget is driven primarily by increases in the Ministry of Oil and the MoE investment budgets. Current expenditures are budgeted at IQD 78.6 trillion, equal to 73.4% of the overall budgeted expenditures, representing a 4.4% increase from the budgeted current expenditures of IQD 75.2 trillion under the 2017 Federal Budget. The increase in current expenditures as compared to the 2017 Federal Budget is due primarily to increases in amounts budgeted for salaries, payments to contractors, electricity generation and imports and for the subsidization of wheat and rice sales.

The 2017 Supplementary Budget anticipates financing IQD 23.3 trillion of the IQD 25.0 trillion budgeted deficit with borrowings, of which IQD 11.5 trillion will be from international lenders. In particular, the 2017 Supplementary Budget expects financing the budgeted deficit as follows:

- IQD 641.6 billion from the balance of ministries' and independent bodies' accounts held with state-owned banks;
- IQD 1.0 trillion from the available balance in the Ministry of Finance's account;
- IQD 3.0 trillion from national bonds to be issued to the public domestically, of which IQD 1.0 trillion has already been raised;
- IQD 2.4 trillion from bonds issued abroad, of which IQD 1.2 trillion has been raised to date;
- IQD 8.9 trillion from the internal banking market, consisting of IQD 3.4 trillion from the issuance of bills to commercial banks, as well as IQD 5.5 trillion from bonds and treasury bills to be issued to state-owned banks and acquired by the CBI pursuant to the discount window. See "*Public Debt and Related Matters—Internal Public Debt*"; and
- Concessionary loans for a total amount of approximately IQD 9.0 trillion (including IQD 2.0 trillion from the IMF, IQD 1.8 trillion from the World Bank, and the remainder from various U.S., European Union, Japanese and other governmental or multilateral financing sources (some of which are intended to fund specific infrastructure developments).

In addition, the 2017 Supplementary Budget empowers the MoF, subject to the approval of the Prime Minister, to issue guarantees in the amount of U.S.$563 million and U.S.$125 million for the benefit of General Electric and STX respectively, and to sign loan agreements guaranteed by export credit agencies, including the Overseas Private Investment Corporation (OPIC).

Iraqi Tax System

Overview

Tax revenues represented between 2.0 and 2.5% of total Federal Government revenues between 2013 and 2015 before the share jumped to 9.4% in 2016. "Capital and Income Tax" and "Commodities Taxes and Production Fees" represent 6.5% of total budgeted Federal Government revenues under the 2017 Supplementary Budget.

In addition, the 2017 Federal Budget Law contained provisions aimed at increasing non-oil revenues and diversifying revenues away from oil, including the introduction of new taxes and levies. See "*—2017 Federal Budget*" and "*—Customs Duties and Sales Tax*."

In Iraq, tax collection is limited due to political instability and security challenges, poor oversight, widespread tax evasion, outdated tax accounting methods, low personal income tax rates, fraud and corruption. In addition, a significant portion of the Iraqi economy is comprised of an informal, or shadow economy, which is essentially not taxed. See "*Risk Factors—Risk Factors Relating to Iraq—A significant portion of the Iraqi economy is unrecorded*."

Income Tax Law No. 113 of 1982, as amended (the "**Income Tax Law**"), including implementing regulations and instructions, provides the fundamental framework for corporate and personal income taxes in Iraq. Other relevant legislation includes, among others, Real Estate Law No. 162 of 1959 as amended (the "**Real Estate Law**"), which governs real estate taxes.

Law No. 92 of 1981, which sets out the organization of the Ministry of Finance, established the General Commission for Taxes, the authority charged with the collection of taxes, and the determination of the bases and procedures for tax collection. The General Commission for Taxes can also present proposals for legislative tax reform in Iraq, and operates within the general framework of the Ministry of Finance.

The Iraqi tax system comprises direct taxation, including corporate and personal income tax, as well as indirect taxes, including real estate tax, customs duties and levies, and sales taxes. Special tax regimes also exist in Iraq, which may apply in respect of certain acts or activities and/or geographical areas.

Corporate Income Tax

Under the Income Tax Law, a flat 15% tax rate applies to the income in Iraq of all corporate entities formed under the laws of Iraq, doing business in Iraq or having their place of management or control in Iraq. For purposes of determining whether a foreign entity is "doing business" in Iraq, the General Commission for Taxes has issued guidelines that distinguish between foreign companies doing business "in Iraq" and foreign companies doing business "with Iraq." Income derived in Iraq by IOCs and their subcontractors operating in the field of oil and gas production and associated industries is subject to a 35% income tax rate under Law No. 19 of 2010.

Personal Income Tax

Under the Income Tax Law, income tax on personal income is levied broadly on all sources of income in Iraq that are not specifically exempted, including on: profits from commercial and professional activities; interest, commissions, and profits from trading in stocks and bonds; rent from agricultural land; and salaries, allowances, wages and bonuses.

For resident Iraqi individuals, progressive tax rates from 3% to 15% apply to their income arising inside or outside Iraq, after deducting allowances, whereas non-resident Iraqi individuals are taxed at the rates applicable to Iraqi residents on their income arising inside Iraq. An Iraqi individual is considered to be resident in Iraq, for purposes of the Income Tax Law, if he/she has been present in Iraq for at least four months during the relevant year, or if he/she has a permanent residence or place of business in Iraq but is temporarily absent from Iraq.

Non-Iraqi nationals are subject to taxation on their income which arises in Iraq regardless of where the income is received, and irrespective of residence status. There is no *de minimis* time period specified in the law, meaning that as little as one day spent working in Iraq will strictly be taxable in Iraq. A non-Iraqi individual is considered to be resident in Iraq if he/she is present in Iraq for at least four consecutive months or a total of six months during the relevant year or if he/she is employed by an Iraqi administration or entity. Special rules apply to nationals of Arab countries.

The Income Tax Law provides for a number of exemptions from income tax, including for: real estate income, which is subject to Real Estate Tax Law; certain income of pensioners; individuals' income from interest on their deposits and accounts in Iraqi banks and savings funds; and foreign employees and contractors of certain entities, subject to certain conditions. The Income Tax Law also sets out provisions for deductions, losses and allowances.

Customs Duties and Sales Tax

CPA Order No. 38 as amended (the "**Reconstruction Levy Law**"), adopted in 2004, introduced a levy of 5% on the taxable value of goods imported into Iraq, with the exception of items such as food, medicine, medical equipment, clothing, books, goods imported to be delivered as humanitarian aid, imports exempted under the Vienna Conventions on Diplomatic Relations of 1961 and Consular Relations of 1963, imports exempted under the Convention on the Privileges and Immunities of the UN, and goods imported by the UN and other international organizations and NGOs. The reconstruction levy was to be used for projects to support the reconstruction of Iraq.

The Customs Tariff Law introduced new customs duties and tariffs, ranging from 3% to 40% of the value of imported goods, as specified in the custom tariff and agricultural agenda that is annexed to the law, and operates under the general framework of Law No. 23 of 1984. The Customs Tariff Law provided for its implementation in stages, though it stated that existing restrictions on certain imports and exports under Law No. 23 of 1984, as amended, or any other law, would continue to apply unless cancelled, pending the implementation of the Customs Tariff Law.

Though the Customs Tariff Law initially repealed the reconstruction levy, its implementation was postponed and the reconstruction levy continued to apply. In 2012, the Customs Tariff Law was amended to provide that implementation would begin on June 30, 2012. In an effort to diversify the Federal Government's revenues away from oil, the 2015 Federal Budget envisioned implementing the Customs Tariff Law and the Council of Ministers announced that its implementation was set to begin as of August 1, 2015. Partial implementation of the Customs Tariff Law has recently commenced.

Law No. 9 of 2006, on the import and sale of petroleum products, exempted certain petroleum products imported by local and foreign private sector companies from customs and tariffs, including the reconstruction levy, for two years as of January 2007, and granted the Council of Ministers the authority to extend such exemptions. In April 2015, the Council of Ministers extended these exemptions by two years beginning in January 2014.

Iraq does not have a value added tax system. A 10% sales tax, originally imposed in 1997 under an order of the Iraqi Revolutionary Command Council, continues to apply to the value of services rendered by luxury hotels and restaurants. To increase non-oil revenues, the 2015 Federal Budget Law established new sales taxes, including a new sales tax of 15% on purchases of imported cars and air travel tickets, a new sales tax of 20% on pre-paid mobile recharge cards and post-paid mobile plans and internet services, and a new sales tax of 300% on alcoholic beverages. The Ministry of Finance issued instructions to implement these new sales taxes in May 2015. The 2015 Federal Budget Law also envisaged the introduction of a stamp levy, to support distressed areas and displaced persons. The 2016 Federal Budget Law continued to impose the 20% sales tax on mobile recharge cards and post-paid plans and internet services, and imposed new airport fees with respect to international travel in the amount of IQD 25,000 for each international air ticket. With respect to imported goods, the 2016 Federal Budget Law reduced the sales tax on imported cars to 5% and the sales tax on alcoholic beverages to 100%. It also imposed a 100% sales tax on imported tobacco and cigarettes. The 2016 Federal Budget Law stipulated that the taxes on imported goods will be imposed until the implementation of the Customs Tariff Law. The 2017 Federal Budget Law also continues to impose the 20% sales tax on mobile recharge cards and post-paid mobile plans, and the airport fees on international air travel. It further introduced new airport fees on domestic travel in the amount of IQD 10,000 for each domestic air ticket.

Other Taxes

Real estate taxes are governed by the Real Estate Law, as amended, which imposes a basic tax rate of 10% on the annual revenue for all real estate. The law allows for a 10% deduction in real estate income prior to assessment of taxes to account for maintenance costs, and provides various exemptions.

The 2017 Federal Budget imposes a 3.8% withholding tax to be applied to the wages and benefits of government and public sector employees and retirees.

Special Tax Regimes

Special tax regimes also apply in Iraq, including to investments in free zones and pursuant to the Investment Law.

Privileges from operating in a free zone include: exemption from taxes and fees in respect of capital, profits and revenues from investments, for the lifetime of the investment; exemption from taxes in respect of wages of foreign workers and a 50% tax exemption in respect of wages of Iraqi workers; and exemption from taxes and fees for imported and exported goods and raw materials, except for those exported to Iraq. See "*Foreign Trade and Balance of Payments—Foreign Trade—Free Zones*."

Under the Investment Law, projects for which an investment license has been obtained can be exempted from taxes and fees for ten years (which may be extended, to fifteen years, if an Iraqi's investor share exceeds 50%), and assets imported for the investment project are also generally exempt from fees as long as they enter Iraq within three years of the licensing date. See "*Foreign Trade and Balance of Payments—Foreign Private Capital—Investor Privileges, Facilitations and Guarantees*."

Public Financial Management Reform

The Council of Ministers has approved a draft financial management law and has forwarded it to the Council of Representatives. *See* "*—The Draft Public Financial Management Law*."

The Federal Government expects that the Memorandum on Economic and Financial Policies resulting from the Second Review will include undertakings with respect to public financial management reforms, including:

- quarterly surveys of domestic arrears and payment of such arrears in timely manner;
- the design and implementation of a commitment control system for budget execution to avoid incurrence of new arrears;
- the strengthening of debt management by enhancing the capacity of the Public Debt Directorate of the Ministry of Finance, and the adoption of a detailed procedure for approving government-issued guarantees;
- developing cash management; and
- designing and implementing, with the assistance of the World Bank, public investment management reform and an integrated financial management information system.

MONETARY SYSTEM

The Central Bank of Iraq

CPA Order No. 56 introduced the Central Bank Law (the "**CBL**"), which came into force on March 1, 2004 and governs the operation of the CBI. The CBL provides that the CBI, which predates the CBL, would continue to exist as a separate legal entity that is independent from the Federal Government, and prohibits improper interference in the CBI's activities or in the decision-making of its governance bodies.

Under the CBL, the primary objectives of the CBI are to achieve and maintain domestic price stability, and to foster and maintain a stable and competitive market-based financial system. Subject to these objectives, the CBI is also required to promote sustainable growth, employment and prosperity in Iraq.

The CBI's mandate also includes the following functions:

- formulate and implement monetary policy, including exchange rate policy;
- issue licenses or permits to banks, and regulate and supervise banks;
- hold and manage all official foreign reserves of Iraq, other than working balances of the Federal Government, and hold gold and manage the state reserves of gold;
- issue and manage Iraqi currency;
- provide liquidity services to banks; and
- establish, oversee and promote sound and efficient payment systems.

In addition, the CBI may take whatever action it deems necessary to counter money laundering and terrorist financing, and to regulate and supervise lending companies, microfinance companies, and any other non-bank financial institutions not otherwise regulated under Iraqi law.

The board of directors of the CBI is responsible for conducting the business, and carrying out the responsibilities, of the CBI. The board of directors is composed of nine members, including the Governor (who also serves as chair of the board and chief executive of the CBI), two Deputy Governors, three senior managers from the CBI, and three other individuals with suitable monetary, banking or legal expertise and who have not been employed by the CBI in any capacity within one year of the date of their nomination. The members of the board of directors serve staggered, five-year terms. The Prime Minister nominates members to the CBI board of directors, and such nominations must be confirmed by the Council of Representatives. The Prime Minister must consult with the Governor and the Deputy Governors with respect to the nomination of the three board members drawn from within the CBI staff. The Governor, as chief executive, is responsible for implementing the board's decisions and conducts the CBI's day-to-day operations.

The Council of Ministers recently submitted a draft amendment of the CBL to the State Legislative Council for review prior to the draft being communicated to the Council of Representatives. The draft, which has been prepared with the input of the World Bank and the IMF, seeks to modernize the functioning of the CBI and to strengthen its governance and internal control function.

Monetary Policy

The CBL authorizes the CBI to engage in the following activities related to the implementation of monetary policy:

- purchasing and selling foreign exchange;
- providing standing deposit and credit facilities to banks;
- setting reserve requirements for banks; and

- conducting open market operations.

The key policy tool deployed by the CBI has been its *de facto* IQD/dollar exchange peg, which has limited inflation expectations in the economy. See "*—Window for Buying and Selling Foreign Currencies*." The banking sector in Iraq is still at a relatively early stage in its development, and does not fulfill the functions a banking sector normally would fulfill in more advanced economies, or does not do so to the same extent. See "*—The Iraqi Banking System*." For this reason, the monetary policy tools that rely on the banking sector, such as the reserve requirement and the provision of standing facilities, are of limited effectiveness in Iraq.

The CBI is implementing a strategic plan for the period 2016-2020, focusing on achieving and maintaining financial market stability, maintaining a dynamic and progressive local financial sector, improving the business infrastructure by performing an organizational restructuring, developing human resources and maintaining solid and integrated internal and external communications and relationships.

Window for Buying and Selling Foreign Currencies

Under the CBL, the CBI conducts transactions in foreign assets and manages official foreign reserves consistent with international best practices in the pursuit of its monetary policy. Since October 2003, the CBI has mainly pursued a *de facto* fixed exchange rate policy, pegging the Iraqi dinar to the dollar (except from November 2006 until the end of 2008, when the CBI allowed the Iraqi dinar to appreciate gradually against the dollar). Between 2012 and 2014, the CBI pegged the Iraqi dinar at around IQD 1,166 to U.S.$1 until December 2015, but has since then allowed the Iraqi dinar to slightly depreciate against the U.S. dollar and to be pegged at IQD 1,182 to U.S.$1 in 2016, and at IQD 1,184 to U.S.$1 as of June 2017, in all cases through daily foreign exchange auctions. The CBI considers that the currency peg policy has been effective in containing inflationary expectations in the economy and in absorbing excess liquidity in the domestic economy.

Starting in 2011, as a result of an expansion in Federal Government spending and concerns about the political instability in Iraq, demand for foreign currency increased. By the year's end, the Federal Government began implementing exchange regulations that were unenforced until that time, which imposed a variety of restrictions on the availability of foreign exchange, including through the daily auction. The Federal Government also introduced new restrictions arising from concerns about money laundering, terrorism financing and illegal transfers of foreign exchange abroad. See "*—The Iraqi Banking System—Combatting Money Laundering and Terrorism Financing*." The overall volume of U.S. dollars sold by the CBI decreased between 2014 and 2016. In January 2017, the CBI simplified the process of purchasing U.S. dollars through official channels by easing the administrative procedures for such purchases (which currently focus on combatting money laundering and the financing of terrorism).

Demand for foreign currency has reduced foreign exchange reserves (which declined from U.S.$84.1 billion in 2013, to U.S.$66.6 billion in 2014, to U.S.$53.3 billion in 2015 and to U.S.$44.7 billion in 2016), and created distortions in the foreign exchange market. Due to concerns about depleting reserves, the 2015 Federal Budget Law required the CBI to limit the size of daily auctions to U.S.$75 million, although the CBI has not always respected this limit, which was not included in the Federal Budget Law for 2016 or 2017. As a result of demand for U.S. dollars and limits in amounts supplied by the CBI, the spread between official exchange rates and parallel market exchange rates has widened, with a widening of the gap to a peak of 10.1% (or 9.6% when commissions charged by the CBI are added to the official exchange rates) in January 2017 (representing a market rate of IQD 1,304 to U.S.$1). The gap decreased to 5.1% (or 4.5% when commissions charged by the CBI are added to the official exchange rates) at June 30, 2017. A divergence between market and official exchange rates encourages rent-seeking behavior and complicates the Federal Government's efforts to reduce corruption and combat money laundering, terrorism financing and other illicit monetary flows.

The following table shows the auction price and market price for the United States dollar for the periods indicated, as well as CBI sales and purchases of foreign currency (the latter being primarily purchases from the Federal Government).

	Year ended December 31,					Six months ended June 30,
	2012	2013	2014	2015	2016	2017
Average U.S.$ auction price (IQD)[1] ...	1,166	1,166	1,166	1,167	1,182	1,184
Average U.S.$ market price (IQD).....	1,233	1,232	1,214	1,247	1,275	1,261
CBI sales of dollars (U.S.$ billions).....	48.6	55.7	54.5	44.3	33.5	20.9
CBI purchase of dollars (U.S.$ billions)...	57.0	62.0	47.5	32.4	25.7	19.0

Source: CBI.

[1] Auction price is expressed exclusive of commissions.

Standing Credit Facilities

The CBI sets a so-called policy rate, on the basis of which it sets interest rates applicable to deposits by banks with the CBI and CBI loans to banks. The policy rate is the rate that the CBI deems appropriate to preserve price stability. The policy rate was held at 6% between 2010 until 2015, but was lowered to 4% in 2016.

The CBI currently offers banks a 7-day deposit facility, currently remunerated at 0.5%. The rate was initially lowered from 4% to 1%, in 2014 and 2015, and then further to 0.5% in 2016, in order to encourage banks to seek higher returns by extending loans to their clients. The CBI also offers banks standby credit facilities, including:

- *A primary credit facility*. The CBI may extend primary credit, against suitable collateral, as a supporting source of financing to a bank that is in a sound financial condition. A bank may not use primary credit for more than 15 days in a month without the approval of CBI. Primary credit may be used in an amount of up to 20% of the bank's capital, or a higher level with the CBI's approval. The current rate applicable to primary credit is 6 %, equal to the policy rate plus 2%.

- *A secondary credit facility*. The CBI extends secondary credit with maturities of up to 30 days, against suitable collateral, as a backup source of funding to a bank that is unable to arrange market financing, provided that the extension of secondary credit is consistent with the bank's timely return to reliance on market funding sources. The current rate applicable to secondary credit is 7%, equal to the policy rate plus 3%.

- *A lender of last resort facility*. In exceptional circumstances, the CBI shall extend lender of last resort financing to a bank that is unable to obtain financing from the market, provided the bank is solvent and provides adequate collateral, the MoF guarantees the repayment of the facility, and the bank seeking support submits a plan to improve its condition so as to be able to access market financing. The current rate applicable to lender of last resort credit is 7.5%, equal to the policy rate plus 3.5%. Support from CBI as lender of last resort is available for a period not exceeding 90 days, extendable by the CBI.

The following table shows the evolution of the policy rate and the rates applicable to the 7-day deposit facility, the primary credit facility, the secondary credit facility and the lender of last resort facility, at the dates indicated below.

	As of December 31,					As of March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Rates	*(per cent. per annum)*					
Policy rate	6.0	6.0	6.0	6.0	4.0	4.0
7-day deposit rate	4.0	4.0	1.0	1.0	0.5	0.5
Primary credit facility	8.0	8.0	8.0	8.0	6.0	6.0
Secondary credit facility	9.0	9.0	9.0	9.0	7.0	7.0
Lender of last resort facility	9.5	9.5	9.5	9.5	7.5	7.5

Source: CBI.

As a result of the high levels of liquidity in the Iraqi banking system, banks have never borrowed from the CBI's standby facilities.

Reserve Requirement

The reserve requirement represents the minimum fraction of customer deposits that each bank must hold as reserves with the CBI and cash in the vault (rather than lend out). Generally, a lower reserve ratio allows a bank to lend out a higher percentage of its deposits, which in turn increases the supply of money to the economy. The current reserve requirement is 15%.

Open-Market Operations

Open market operations are generally undertaken by the CBI on an auction basis with the banks. The CBI conducts auctions of 91-day, 182-day and 365-day IQD-denominated treasury bills. The sale of these instruments serves to absorb liquidity in the domestic economy. Conversely, a decrease in the outstanding amount of these instruments leads to a net reinjection of money into the Iraqi economy. Sales of treasury bills amounted to IQD 14.0 trillion in 2016 (at rates averaging 5.3%), as compared to IQD 14.5 trillion in 2015 (at rates averaging 2.9%), and IQD 5.1 trillion in 2014 (at rates averaging 5%).

Furthermore, the CBI has opened a discount window for purchases of treasury bills from Iraqi banks. See "*Public Debt and Related Matters—Internal Public Debt*."

Inflation and Monetary Aggregates

Inflation

The achievement of price stability is one of the CBI's main goals. The Iraqi economy is heavily dependent on imports for a wide variety of consumer goods. As the CBI has pursued a policy of maintaining a *de facto* currency peg to the dollar, inflation in dollar-denominated prices outside of Iraq is effectively imported into the domestic economy. Factors pushing inflation upwards also include high levels of fiscal spending and supply side shocks arising from the volatile security situation in the country.

The leading measure of inflation in Iraq is the CPI. The elements of the basket of goods and services used to compute the CPI and their respective weights were determined based on the results of an economic and social survey conducted in 2007.

Inflation rates were extremely high in the period following 2003. CPI inflation rates have slowly trended downwards since then, and despite rising from 5.6% in 2011 to 6.1% in 2012, were subdued in 2013 and 2014 at 1.9% and 2.2%, before declining to 1.4% and 0.5% in 2015 and 2016, respectively. (For the years 2011 to 2016, CPI inflation is measured with reference to the average CPI during such year and the average CPI during the prior year).

Monetary Aggregates

The table below presents information on aggregate levels of money supply in the periods indicated.

	As of December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Aggregate Levels of Money Supply	(*IQD billions, except where stated otherwise*)				
Currency in circulation	35,785	40,630	39,884	38,585	45,232
M1 money supply[(1)]	63,736	73,831	72,692	65,435	70,733
M1 money growth (% change)[(1)]	2	15.8	(1.5)	(10.0)	8.1
M2 money supply[(2)]	75,466	87,679	90,728	82,595	88,082
Of which:					
Foreign currency deposits	11,198	9,580	13,169	11,217	9,223
Domestic currency deposits[(3)]	33,674	43,104	41,487	36,523	36,784
Total deposits	**44,872**	**52,684**	**54,656**	**47,740**	**46,007**
M2 money growth (% change)[(2)]	4.6	16.2	3.5	(8.9)	6.6
M2 money as % of nominal GDP[(4)]	29.7	32.0	33.2	39.4	43.4

Source: CBI.

(1) M1 money represents money outside banks plus current deposits in national and foreign currency for economic sectors (other than the Federal Government sector) with commercial banks.

(2) M2 money represents M1 money plus other deposits of economic sectors (other than the Federal Government sector) with commercial banks.

(3) Calculated by deducting foreign currency deposits from overall deposits comprising M2.

(4) M2 money as a percentage of nominal GDP are based on nominal GDP figures as presented under "*Economy*."

Money supply grew rapidly in the period between 2012 and 2013, reflecting overall growth in the economy and substantial amounts of Federal Government spending in that period. Money supply growth decreased sharply in 2014 and became negative in 2015 (and M1 money supply shrank in both years), as a result of extensive withdrawals of deposits linked to the deteriorating security situation. In 2016, M1 money supply increased by 8.1%, while M2 money supply increased by 6.6%.

The deposit component of M2 money supply is made up primarily of local currency deposits. As of December 31, 2016, Iraqi dinar deposits comprised approximately 80% of deposits included within the M2 money supply measure.

For information on overall deposits held with Iraqi commercial banks, see "*—The Iraqi Banking System.*"

Reserves

Since 2003, Iraq's foreign reserves have been managed pursuant to a two-tier system, with the monetary reserves managed by the CBI and the fiscal reserves managed by the Ministry of Finance. The CBI fulfills this mandate pursuant to the CBL.

The following table sets forth information on foreign reserves held by the CBI and the Federal Government.

	As of December 31,					As of June 30,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Foreign Reserves			*(U.S.$ millions)*			
Gross CBI foreign reserves.....	69,301.7	77,822.5	65,875.4	50,916.9	42,678.4	43,995.0
Federal Government reserves	18,055.4	6,291.3	694.7	2,369.2	1,985.9	2,551.9
Total foreign reserves	87,357.1	84,113.8	66,570.1	53,286.1	44,664.3	46,546.9

Source: CBI.

The Federal Government has in the past allowed its foreign reserve balances to increase during periods of high oil prices, but has also drawn down on these balances to help finance budget deficits in periods of low oil prices, meaning that Federal Government reserves have served as a *de facto* budget stabilization fund. As of December 31, 2016, the Federal Government reserve balance was equal to U.S.$2.0 billion, compared to a balance of U.S.$18.1 billion as of December 31, 2012. The balance was approximately U.S.$2.6 billion as of June 30, 2017.

The following table sets forth the financial position of the CBI as of the dates indicated.

	As of December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
			(IQD billions)		
Gold reserve	1,860.3	1,903.2	4,039.6	3,627.2	3,958.0
Cash and deposits with central banks	14,302.1	20,835.3	10,039.4	4,511.7	7,864.5
Deposits with banks and other financial institutions[(1)]	10,469.3	14,059.3	16,430.5	16,369.5	14,135.6
Securities held to maturity	50,773.2	51,093.1	45,192.6	38,613.9	27,062.1
Loans to commercial banks	-	-	-	7.5	620.8
Claims on Ministry of Finance	3,155.5	2,755.5	2,455.5	8,580.9	19,534.1
Foreign currency investments with the IMF[(2)]	4,140.3	3,944.0	2,854.9	-	2,176.2
Physical assets[(3)]	119.7	144.2	182.6	191.9	194.1
Intangible assets	-	-	6.9	10.8	8.6
Other assets[(4)]	421.9	420.7	405.1	562.3	990.2
Total assets	**85,242.2**	**95,155.4**	**81,607.2**	**72,475.7**	**76,544.2**
Currency in circulation	35,784.8	40,630.0	39,883.7	38,585.1	45,231.5
Treasury bills issued	745.5	943.2	853.4	1,080.1	64.7
Deposits of domestic banks and other financial institutions	34,790.9	42,210.2	31,679.8	24,485.0	22,656.0
Foreign bank and government liabilities	22.5	18.4	39.9	39.8	39.6
IMF deposits[(2)]	3,870.7	3,825.6	3,753.2	-	2,299.7
Deposits of government entities	6,857.8	2,020.5	2,004.0	5,929.1	3,953.6
Other liabilities[(5)]	36.8	44.9	127.1	120.0	99.6
Total liabilities	**82,109.0**	**89,692.8**	**78,340.1**	**70,239.1**	**74,344.7**
Ownership rights[(6)]	**3,133.2**	**5,462.6**	**3,266.2**	**2,236.6**	**2,199.5**
Total liabilities and ownership rights	**85,242.2**	**95,155.4**	**81,607.2**	**72,475.7**	**76,544.2**

Source: CBI.

(1) Includes deposits with domestic and foreign banks.
(2) In 2015, all IMF-related accounts were transferred from the CBI to the Ministry of Finance. These accounts were returned from the Ministry of Finance to the CBI in 2016.
(3) Includes land, buildings, equipment and vehicles.
(4) Includes accrued interest, loans to employees and gold held for sale.
(5) Includes accrued and unpaid interest, closed accounts, and suspended accounts with the branches in Basrah and Mosul.
(6) Includes capital, general reserve, emergency reserve, profits arising from revaluation of gold, and loss carry forwards.

The Development Fund for Iraq

UN Security Council Resolution 1483 (2003) established the Development Fund for Iraq, an account held in the books of the FRBNY, and mandated that all revenues from export sales of petroleum, petroleum products and natural gas from Iraq were to be transferred to such account, except for revenues to be transferred to a UN Compensation Fund. UN Security Council Resolutions 687 (1991), 1483 and 1956 (2010) require Iraq to transfer 5% of its petroleum, petroleum products and natural gas export revenues, as well as 5% of the value of any

non-monetary payments of petroleum, petroleum products and natural gas made to service providers, to a Compensation Fund established by the UN primarily to compensate for damage caused (mainly in Kuwait) during the First Gulf War. This requirement has been postponed by the Governing Council of UN Compensation Commission since 2015 due to declining oil prices and the security situation in Iraq. Currently, in light of that postponement, all proceeds from export sales of petroleum, petroleum products and natural gas from Iraq are transferred to the oil proceeds receipt account. The oil proceeds receipt account is an account of the CBI opened in the books of the FRBNY. UN Security Council Resolution 1483 also required the Development Fund for Iraq to be subject to audit, and provided it with special immunities.

The deposit and audit requirements relating to the Development Fund for Iraq apply to the oil proceeds receipt account pursuant to Iraq's Financial Management Law, following the revocation of the analogous provisions of UN Security Council Resolution 1483, which became effective June 30, 2011, pursuant to UN Security Council Resolution 1956 (2010). The Iraqi Committee of Financial Experts, established by the Council of Ministers in 2006, now oversees the audit of the oil proceeds receipt account. Following the termination of the specific immunities formerly applicable to the Development Fund for Iraq, the CBI accounts are now subject to the provisions of the Foreign Sovereign Immunity Act. Under the Foreign Sovereign Immunity Act, foreign states are immune from lawsuits brought in United States courts, and their property and that of central banks in the United States are also immune from attachment and execution, subject to a number of exceptions. Following the receipt of any amount in the oil proceeds receipt account, the CBI credits an account of the Ministry of Finance, opened in the books of the CBI in Baghdad, with an equivalent amount. The Ministry of Finance uses the funds credited to this account for general budgetary purposes.

An annual external auditor issued a qualified opinion with respect to the Development Fund for Iraq's statement of cash receipts and payments, and statements of proceeds of oil export sales for the year December 31, 2015, noting, among other things, the unavailability of data regarding crude oil exports by the KRG. Audit reports from prior years reported similar concerns.

The Iraqi Banking System

The following discussion of the Iraqi banking system is based on CBI statistics. These statistics likely overstate the value of the banking system's assets, including loans, capital and reserves. In particular, an audit by an international audit firm has revealed that Iraq's largest bank, Rafidain Bank, which accounts for nearly half of the banking system's assets and deposits, had negative shareholders' equity as of December 31, 2014, despite CBI statistics indicating that it had positive capital and reserves as of that date. Rafidain Bank and Rasheed Bank may have negative shareholders' equity currently.

The Iraqi banking sector is composed of seven state-owned Iraqi banks (of which one is an Islamic bank), 39 privately owned Iraqi banks (of which 15 are Islamic banks) and 19 branches of foreign banks (of which four are Islamic banks). Iraq also has non-bank companies that provide financial services, including the Iraqi Company for Financing of Small and Medium Enterprises and the Iraqi Bank Guarantee Company, which focus on encouraging lending to SMEs and other small borrowers.

Iraq's banking system is dominated by state-owned banks, in particular Rasheed Bank, Rafidain Bank and Trade Bank of Iraq, which three banks are estimated to hold together approximately 82.3% of the deposits in Iraq as of December 31, 2016. These three state-owned banks play a disproportionate role in extensions of credit to SOEs and in transactions with the Federal Government. The dominance of the state-owned banks and their close relation to the Federal Government in an economy that is still denominated by the state sector, have significantly limited the development of privately owned banks and their contribution to economic development.

The banking sector is characterized by high levels of liquidity and, in certain state-owned banks, low levels of capitalization. An audit by an international audit firm has revealed that the largest bank, Rafidain Bank, may have had negative shareholders' equity as of December 31, 2014. Rafidain Bank and Rasheed Bank may have negative shareholders' equity currently. See "*Risk Factors—Risk Factors Relating to Iraq—The Iraqi banking sector is dominated by state-owned banks, the two largest of which may have negative shareholders' equity, and the privately owned banks are underdeveloped*." The capital adequacy ratio in certain private sector banks greatly exceeds the 12% statutory minimum, as a result of their low levels of lending.

Non-performing loans represented an estimated 9% (doubtful debts to cash credit ratio) across the banking sector as of December 31, 2016, up from 8% as of December 31, 2015 and 7% as of December 31, 2014 and 2013. For state-owned banks, non-performing loans represented an estimated 7% (doubtful debts to cash credit ratio) as of December 31, 2016, with Industrial Bank of Iraq recording the greatest estimated percentage, 21% as of December 31, 2016. For privately owned banks, non-performing loans represented an estimated 16% (doubtful debts to cash credit ratio) as of December 31, 2016, with Basrah International Bank for Investment and Credit Bank of Iraq recording the greatest estimated percentage, 100% as of December 31, 2016. See "*Risk Factors—Risk Factors Related to Iraq—The Iraqi banking sector is dominated by state-owned banks, the two largest of which may have negative shareholders' equity, and the privately owned banks are underdeveloped*."

Low capital adequacy in the state-owned banks, which dominate the Iraqi banking sector, has meant that lending to large investment projects remains limited. Federal Government efforts to reform the banking sector have focused on Rafidain Bank and Rasheed Bank, as the two largest state-owned banks in Iraq. The Federal Government has established a Higher Committee for Reform, which is responsible for evaluating various strategic options for the two banks.

The penetration of banking services and products in Iraq is still low, even when compared to other countries in the region, when measured by ratios of credit or deposits to GDP. In 2015, the CBI estimated that there was one banking branch per 23,000 residents in Iraq, as compared to six branches per 10,000 residents in advanced economies.

The following table sets forth information regarding the banking sector in Iraq at the dates indicated below.

	As of December 31,				As of March 31,
	2013	**2014**	**2015**	**2016**	**2017**
Banking Sector in Iraq			*(IQD trillions)*		
Assets:					
State-owned banks	187.7	204.6	200.6	197.6	196.4
Non-state owned banks[(1)]	21.1	22.0	22.2	23.6	23.8
Total	**208.8**	**226.6**	**222.8**	**221.2**	**220.2**
Loans:[(2)]					
State-owned banks	57.1	66.9	59.3	53.2	51.0
Non-state owned banks[(1)]	15.5	18.1	18.0	17.2	16.6
Total	**72.6**	**85.0**	**77.3**	**70.4**	**67.6**
Deposits:					
State-owned banks	58.9	64.4	55.2	53.8	54.0
Non-state owned banks[(1)]	10.0	9.7	9.1	8.6	8.6
Total	**68.9**	**74.1**	**64.3**	**62.4**	**62.6**
Capital and reserves:					
State-owned banks	2.5	3.4	3.8	3.9	4.3
Non-state owned banks[(1)]	6.5	7.9	8.3	9.9	10.2
Total	**9.0**	**11.3**	**12.1**	**13.8**	**14.5**

Source: CBI.

(1) Includes privately owned and foreign banks.

(2) Includes both cash credits (overdrafts, discounted bills, loans and advances, and past due debts) and pledged credits (letters of credits and letters of guarantee) extended by commercial banks.

The Iraqi banking system was estimated to have IQD 220.2 trillion of assets as of March 31, 2017 and IQD 221.2 trillion in assets as of December 31, 2016, as compared to IQD 222.8 trillion as of December 31, 2015, and IQD 222.6 trillion as of December 31, 2014. The stated-owned banks continued to represent the lion's share of banking system assets, with shares of 89.1%, 89.3%, 90% and 90.3% as of such dates, respectively.

The amounts lent (comprising both cash and pledged credits) by banks were estimated to be IQD 67.6 trillion as of March 31, 2017 and IQD 70.5 trillion as of December 31, 2016, as compared to IQD 77.3 trillion and IQD 85.0 trillion as of December 31, 2015 and 2014. These levels were low as compared to total assets. The state-owned banks deployed a disproportionately high amount of loans as compared to private-sector banks, which is an indication that certain state-owned banks continue to implement risky lending practices. The CBI attributes the low level of loan-making by private-sector banks to the low creditworthiness of borrowers as well as the limited availability of sound collateral. The CBI has also attributed the low levels of credit in the economy to the limited availability of long-term funding sources for the banks. The CBI has implemented policy changes aimed at encouraging banks to extend more credit, such as reducing the reserve requirement on deposits from 20% to 15% in 2010, liberalizing rate-setting by banks on loans, making funds available to banks for lending to the private sector (with a focus on small loans), and improving monitoring and provisioning policies for large loans, though the impact of these changes has been limited.

The banking system's deposits (including Federal Government deposits) were estimated to be IQD 62.6 trillion as of March 31, 2017 and IQD 62.4 trillion as of December 31, 2016, compared to IQD 64.3 trillion as of December 31, 2015 and IQD 74.1 trillion as of December 31, 2014. Rafidain Bank, Rasheed Bank and TBI are estimated to hold together approximately 82.3% of Iraqi bank deposits as of December 31, 2016 and a similar percentage as of March 31, 2017, due in part to the decision of the Ministry of Finance directing deposits of state-owned companies to state-owned banks.

The Iraqi banking sector remains undercapitalized, despite the CBI's efforts to increase the overall amount of capital and reserves in Iraq's banks. Capital and reserves were estimated to be IQD 14.5 trillion as of March 31, 2017 and IQD 13.8 trillion as of December 31, 2016, as compared to IQD 12.1 trillion and IQD 11.3 trillion as of December 31, 2015 and 2014, respectively.

In 2016, eight Iraqi banks were faced with solvency issues as a result of the negative trends in the overall economy. The CBI established plans to resolve these difficulties, involving instructions to the banks to change certain practices and policies, which were implemented successfully by five of the banks. Two others are in the process of implementing their plans successfully (though have yet to complete them), while the eighth bank is under liquidation.

During 2013, the CBI's branches in Erbil and Sulaymaniya became financially and administratively controlled by the KRG. In 2013 and 2014, the KRG required the transfer of commercial bank deposits in these branches, amounting to several trillion IQD, to the KRG for its use in financing its budget, without compensation. The CBI estimates that approximately half of these deposits were of the TBI. The failure by the KRG to repay the amounts allegedly misappropriated has resulted in significant losses to the commercial banks involved. The CBI is actively monitoring this situation and attempting to establish mechanisms for the relevant commercial banks to be reimbursed, though little progress has been achieved to date. The CBI has reached an agreement in principle with the KRG to close the two branches and to open two new ones under the control of the CBI, although the agreement is still in the implementation phase.

The CBI has recently implemented policies that aim to increase state-sector interactions with private sector banks, including by encouraging government deposits in private banks and allowing state-sector bodies to obtain documentary credit from private banks.

The following table sets forth the average interest rate paid by commercial banks for various forms of deposits during the periods indicated.

	Year ended December 31,					Quarter ended March 31,
	2012	2013	2014	2015	2016	2017
Average Interest Rates Paid by Banks			*(per cent. per annum)*			
Saving deposits	5.0	4.7	4.2	4.6	4.4	4.2
6-month time deposits	5.9	5.6	4.9	4.8	4.7	4.6
1-year time deposits	6.8	6.4	5.8	5.7	5.8	5.6
2-year time deposits	7.8	7.4	6.5	6.1	6.1	5.8

Source: CBI.

The following table sets forth the average interest rate charged by commercial banks for various forms of credit in IQD during the periods indicated.

	Year ended December 31,					Quarter ended March 31,
	2012	2013	2014	2015	2016	2017
Average Interest Rates Charged by Banks			*(per cent. per annum)*			
Current account (overdraft)	14.6	14.3	13.6	13.5	13.7	13.4
Discounted bills	14.4	14.3	13.2	13.6	13.5	13.1
Short-term loans	13.8	13.5	12.4	12.3	12.4	12.6
Medium-term loans	12.9	13.0	12.3	12.3	12.2	12.5
Long-term loans	13.6	13.7	12.9	12.0	11.9	12.3

Source: CBI.

Supervision and Regulation of Banks in Iraq

The Banking Law of 2004 (the "**Banking Law**") regulates the operation of banks in Iraq. As regulator of the Iraqi banking system, the CBI seeks to safeguard the interests of bank depositors and shareholders, to ensure the positive and effective participation of the banking sector in financing economic activity, to promote economic growth, and combat money laundering and terrorism financing.

The CBI exercises its regulatory control through a number of instruments, including the licensing or permit issuance process, the review of reports and other documents submitted by the banks, and on-site examinations of banks.

Banks in Iraq are required to observe the following requirements:

- *Minimum capital requirements:* Each bank in Iraq is required to have at least IQD 250 billion in capital, as per a CBI instruction issued in 2010.
- *Capital adequacy ratios:* Each bank is required to maintain a ratio of regulatory capital to risk-weighted assets of at least 12%.
- *Concentration limits:* No bank's investments in equity securities may exceed 20% of its unimpaired capital and reserves. Other limits exist for lending to single persons. No bank's large credit exposures (as defined in the Banking Law) may exceed 400% of its unimpaired capital and reserves.
- *Liquidity requirements*: Each bank must maintain a ratio of liquid assets to liquid deposits of at least 30%.

Under the CBL, banks cannot acquire participations in other banks or financial institutions without the CBI's approval. In addition, without the CBI's approval, banks cannot purchase shares in companies established outside Iraq, except when transferred to a bank in the course of its banking operations.

The CBI requires banks to carry out stress testing in order to assess their ability to withstand extreme events.

The Banking Law provides for bankruptcy rules specific to the banking sector.

Payment System

The Iraqi Payment System ("**IPS**") is an electronic payment system designed to ensure the exchange of payment orders between banks automatically via an efficient and secure network. The CBI owns, controls and operates the IPS, and manages the settlement accounts of the participants in order to ensure the safety and efficiency of the payment system and clearing operations. The CBI aims to reduce the use of cash to make the transfer of money across the country less difficult and risky, in particular in light of the security challenges Iraq faces. The IPS ensures high levels of safety, among other things, through encoded transmissions, the use of e-tokens to access the system and the use of digital signatures, as well as by storing information in primary and secondary locations.

The IPS is comprised of three elements:

- *the Real-Time Gross Settlement System ("RTGS"):* the RTGS is a system for effecting electronic transfers between banks via a secure and efficient network. The system allows for final processing and settlement of payment orders between participants in real time throughout the business day. RTGS was activated in August 2006 and replaced the previous, manual system for processing and settling payments. Initially, five banks participated in settlement processes, but gradually the CBI widened the system to cover 55 banks.

- *the Cheque - Automated Clearing House system ("C-ACH"):* this system enables the participant banks and their branches to exchange payment orders automatically. The system determines the final settlement amount processed, which is sent to the RTGS. The C-ACH system was activated in September 2006 for branches of the main banks (Rafidain Bank, Rasheed Bank, Bank of Baghdad, Commercial Bank and Middle East Bank) and since then the number of participants has increased significantly.

- *the Central Securities Depository ("CSD"):* the CSD manages securities issued by the CBI and Ministry of Finance, including the auctioning process. The system keeps a record of the initial subscribers to the securities together with scheduled interest and principal payments on those securities. The CSD also handles the settlement of transactions in those securities in the secondary market. Through the CSD the CBI has greater ability to monitor liquidity in the economy. The system was activated in October 2008, and currently includes 30 bank participants in addition to the Ministry of Finance and other Federal Government agencies.

Currently, the IPS is governed by contracts between the CBI and the various participants. The CBI has examined the laws of other countries applicable to payment systems in order to assess their suitability for Iraq.

The CBI and various Federal Government ministries have launched other initiatives to improve the processing of payments in Iraq (such as standardizing the security features of checks, the adoption of IBAN numbering systems for accounts, the e-dinar pre-paid cards, and commissioning feasibility studies for mobile phone payments systems).

Combatting Money Laundering and Terrorism Financing

The CBI attaches great importance to its statutory mandate to combat money laundering and terrorism financing. The first overarching regulation of the banks' obligations in respect of money laundering was introduced by the CPA Order No. 93 of 2004, which promulgated the Anti-Money Laundering Law. In October 2015, Law No. 39 of 2015 on Combating Money Laundering and Terrorism Financing (the "**New AML Law**"), which was prepared in coordination with the World Bank and the Financial Action Task Force, replaced CPA Order No. 93. The New AML Law criminalizes money-laundering and terrorism financing, imposes "know your customer" and anti-money laundering requirements on financial institutions, and requires the CBI to supervise the compliance of Iraqi financial institutions with their obligations under the New AML Law. Further, the New AML Law established the Combating Money Laundering and Terrorism Financing Council as a unit within the CBI with financial and administrative

independence and an office separate from the main headquarters of the CBI. The Council is headed by the governor of the CBI and has representatives from the Ministries of Interior, Foreign Affairs and Trade, as well as from the Intelligence Directorate and various other security departments. The Council is charged, among other things, with drawing up anti-money laundering policies, issuing anti-money laundering regulations, coordinating between various security directorates, designing training programs for the employees involved in combating money laundering, and following up on the implementation of investigations. The New AML Law established also the Combating Money Laundering and Terrorist Financing Office to, among other things, receive and deal with suspicious transaction reports. The CBI has a number of plans to strengthen and reinforce the regulatory and institutional framework related to combatting money laundering and terrorism financing in Iraq. In March 2017, the CBI governor issued instructions to financial institutions relating to anti-money laundering and combatting terrorism financing.

As a result of these measures, all banks in Iraq have now established units focusing on anti-money laundering and "know your customer" procedures, compliance and risk management.

Iraq is a member of the Financial Action Task Force for the Middle East and North Africa.

Trade Finance

The Trade Bank of Iraq was established in July 2003 to bolster Iraq's international trade activity and the country's reconstruction after the expiration of the UN Oil-For-Food Programme. It is wholly owned by the Federal Government and operates as a commercial bank. TBI has built relationships with an international network of banks that together provide the bank with lines of credit. Additionally, TBI has signed agreements with a number of export credit agencies around the world. When financing imports, TBI's letters of credit are regularly confirmed or advised by international correspondent banks. For example, the TBI is currently a party to an agreement with the Export-Import Bank of the United States (EX-IM Bank), signed in 2003 and updated in October 2004. Under this agreement, the EX-IM Bank insures irrevocable letters of credit issued by TBI and confirmed by a U.S. commercial bank, as well as provides comprehensive coverage on short term credits extended to TBI by an insured U.S. bank.

Iraqi Capital Markets

The Iraqi capital markets consist primarily in the Iraq Stock Exchange, with headquarters in Baghdad. Although licensed, the Erbil Stock Exchange in Erbil does not actively trade any securities.

The fundamental law governing the Iraqi capital markets is CPA Order No. 74 Interim Law on Securities Markets, as amended (the "**ILSM**"). The ILSM first came into force on April 18, 2004. A permanent securities law to replace the ILSM has been under discussion for some time.

The Iraqi capital markets, still in their infancy, are characterized by limited levels of aggregate valuations and of liquidity.

Iraq Securities Commission

The Iraq Securities Commission (the "**Commission**") is the regulator of the Iraqi capital markets and was established in 2004 pursuant to the ILSM. The Commission has legal personality. It submits an annual report of its activities to the Federal Government. The Commission's books, records and accounts are subject to inspection, and its financial statements are subject to audit. The Commission's budget is determined annually as part of the overall Federal Budget, and any fines imposed by the Commission become part of the general treasury of the Federal Government.

No stock exchange or other organized securities market can operate without a license from the Commission. The Commission has the authority, among other things, to:

- regulate and oversee stock exchanges, securities markets and the securities depository;
- inspect the operations of companies listed on a stock exchange;

- promulgate rules for disclosure of information and reports for securities offerings and secondary trading;
- promulgate rules relating to investment management and investment advisory activities for brokers, banks or other companies; and
- enforce the ILSM, any rules adopted thereunder and any rules of the stock exchanges, securities markets or the securities depository.

The Commission consists of five members, including a chairman, experienced in the field of securities.

Iraq Stock Exchange

The ISX was established in 2004 pursuant to the ILSM as a legal entity with financial and administrative independence. The ISX replaced the Baghdad Stock Exchange without however assuming responsibility for any obligations of the Baghdad Stock Exchange. The ISX is a not-for-profit, member-owned and self-regulatory organization, independent of the Federal Government and the Ministry of Finance. The ISX was licensed and authorized under the ISLM, and is subject to the regulatory oversight of the Commission.

The ISX is governed by, and operates under the direction of, a nine-member board of governors, which includes, among others, one representative of the listed companies and one representative of the authorized brokers. The governors are appointed by the general assembly, which consists of brokers authorized to engage in securities transactions on the stock exchange.

The ISX regulates the dealings of its members (*i.e.*, the brokers) in securities-related services and transactions. It also promulgates rules applicable to listed companies in a manner that it believes is consistent with the goal of protecting investors and promoting investor confidence in the market. The ISX also seeks to organize and facilitate fair, efficient and orderly transactions in securities, including the clearance and settlement of such transactions.

The ISX has a regular market as well as a second market. Different listing standards apply to these markets.

The Iraq Depository Center is a division of the ISX, established pursuant to the ILSM. The depository aims to promote the timely, safe and efficient settlement of securities transactions, as well as open and non-discriminatory access to clearance and settlement services. All securities transactions taking place on the stock exchange are required to be cleared and settled through the facilities of the depository on a book-entry basis. Once securities have been deposited, they cannot be withdrawn or subsequently transferred in physical form.

In 2009, the ISX launched an electronic trading system in cooperation with NASDAQ-OMX. In 2013, the ISX and NASDAQ OMX Group entered into an agreement in order to upgrade the ISX's trading platform and to replace the existing NASDAQ OMX platform with one powered by X-stream technology.

Performance of Stock Exchange, Volumes, Indices, etc.

The following table shows certain information regarding the ISX for the periods indicated.

	As of December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Iraq Stock Exchange Data					
Number of listed companies	85	83	83	98	97
Rabee Securities Iraqi Dinar Equity Index	1,611.5	1,865.4	1,392.9	1,090.1	959.6
Market value (IQD billions)	5,597	11,476	9,549	9,355	9,265
Number of traded shares (year then ended).....	625,640	875,568	746,212	618,726	1,038,000
Trading volume (IQD millions) (year then ended).....	893,825	2,845,425	901,172	495,112	516,000

Source: ISX, CBI and Rabee Securities.

The Rabee Securities Iraqi Dinar Equity Index increased by 15.7% in 2013, before decreasing by 25.3%, 21.7% and 12% in 2014, 2015 and 2016, respectively. The period under review witnessed an overall increase in the number of listed companies, from 85 in 2012 to 97 in 2016, with the biggest increase taking place in 2015 when 15 companies were listed on the ISX, including mobile telecommunications operator Khatem J.S.C., parent company of Atheer Telecom Iraq Limited (operating under the trade name Zain). The increase in the number of listed companies was accompanied by an increase in market value from IQD 5.6 trillion in 2012 to IQD 9.3 trillion in 2016. The number of traded shares and trading volume increased in 2013 essentially due to the listing of Asia Cell, a mobile telecommunications company partly owned by Ooredoo of Qatar, on the ISX. The data for 2014 and 2015 portrays a decrease in most indicators regarding the stock market, reflecting the deterioration of economic conditions generally and the worsening security situation, before recording a recovery in trading volume in 2016.

Bond Market

There is no regulated secondary market for treasury bills issued by the Ministry of Finance or the CBI. No market for corporate debt securities has developed in Iraq.

PUBLIC DEBT AND RELATED MATTERS

Overview

Between 2012 and 2014, Iraq's debt-to-GDP ratios were very modest. Nonetheless, in recent years, the decrease in nominal GDP, combined with increasing Federal Government borrowings driven by the need to finance budget deficits, have led to sharp increases in public debt, both in nominal terms and as a percentage of GDP.

The Financial Management Law sets out budget-related provisions relevant to Iraq's public debt. Among other things, Federal Government debt may be in the form of domestic and foreign loans, short-term borrowings, and securities issues. The issue and redemption of securities is managed by the CBI as agent for the Federal Government, and the MoF signs the borrowing and guarantee contracts of the Federal Government. Under the Financial Management Law, the MoF maintains a record of all Federal Government debt, and the authorized bodies within the regional governments and governorates maintain a record of existing regional government and governorate debt, loans granted, short-term borrowings, and guarantees issued, and provide the Ministry of Finance an updated record thereof within 30 days of the end of each month. The MoF is under an obligation to prepare and disclose to the public a consolidated report on all Federal Government debt within 90 days of the end of each fiscal year. See "*Public Finance—Overview—Federal Budget Preparation*."

Annex B to CPA Order No. 95 of 2004, as amended (the "**Public Debt Law**") sets out provisions relevant to the issuance of debt securities by the Federal Government. Under the Public Debt Law, the MoF has the authority to issue Federal Government debt securities in amounts reasonably necessary for expenditures authorized by law, and to buy, redeem or refund outstanding Federal Government debt securities. The MoF determines how the securities are offered, and their terms and conditions, including: maturity; price and interest rate; whether a security is issued on an interest-bearing, discount, or interest-bearing and discount, basis; form of the security; and currency. Prior to any sale, the MoF discloses the terms and conditions of the securities, ensuring a wide circulation among potential buyers. The MoF can issue implementing regulations, policies and announcements.

Under the Public Debt Law, the MoF must maintain records of Federal Government debt securities issued, identifying dates when obligations are due, and all amounts of principal and interest paid. The MoF must submit a yearly report to the Prime Minister and the Council of Ministers, including at least: a table showing public debt under Federal Government debt securities; the interest cost in the current year and projected over the next five fiscal years; a table showing the maturity distribution of public debt under Federal Government debt securities; and an explanation of the overall financing strategy used in determining the distribution of maturities and interest rates for Federal Government debt securities issued during the fiscal year.

Iraq has been assigned a long-term foreign currency issuer default rating of B- by Fitch, and a long-term foreign and local currency sovereign credit rating of B- by S&P. In March 2017, Fitch revised the outlook on Iraq's long-term foreign currency issuer default rating to stable from negative. S&P's outlook on Iraq is stable.

Public Debt

The table below sets out certain information regarding Iraq's public debt for the periods indicated. "Internal debt" refers to public debt issued in Iraq, almost all of which is denominated in IQD. The substantial majority of the internal debt is owed to state-owned banks or the CBI. "External debt" is public debt issued outside Iraq in currencies other than the Iraqi dinar. Public debt figures below do not include claims against Iraq existing in 2003 that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees, but do include loans to Federal Government-owned, self-funding companies described under "*—Internal Debt*." See "*—External Debt Restructuring—Non-renegotiated Claims*," "*—Government Arrears*" and "*—Government Guarantees*."

	As of December 31,					As of March 31,
	2012	2013	2014	2015	2016	2017
Public Debt						
Internal debt (IQD trillions)[(1)]	11.5	13.2	20.2	31.9	46.9	46.3
Internal debt (U.S.$ billions)[(1)]	9.9	11.2	17.3	27.1	39.7	39.2
External debt (U.S.$ billions)[(1)]	18.7	17.8	16.0	16.7	20.6	21.6
Total public debt (U.S.$ billions)[(1)]	28.6	29.1	33.3	43.8	60.3	60.8
Total public debt (as % of nominal GDP)[(1)]	13.1	12.4	14.2	24.4	35.1	35.4[(2)]

Source: Ministry of Finance.

(1) Excludes claims against Iraq existing in 2003 that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees. Includes loans to Federal Government-owned, self-funding companies described under "*Public Debt and Related Matters—Internal Debt*."

(2) This percentage was calculated based on the GDP for the year 2016.

From December 31, 2012 to December 31, 2016, total public debt increased by U.S.$31.7 billion, from U.S.$28.6 billion to U.S.$60.3 billion, which amounted to a 110.8% increase. It further increased by 0.8% to U.S.$60.8 billion as of March 31, 2017. As a percentage of GDP, total public debt reached 24.4% and 35.1% of GDP as of December 31, 2015 and December 31, 2016, respectively. As of March 31, 2017, total public debt amounted to 35.4% of the nominal 2016 GDP.

Over the same 2012-2016 period, external debt first decreased by 14.4% from U.S.$18.7 billion as of December 31, 2012 to U.S.$16.0 billion as of December 31, 2014, but then began to increase, up to U.S.$20.6 billion as of December 31, 2016 and to U.S.$21.6 billion as of March 31, 2017, representing an increase of 15.5% over the entire period between December 31, 2012 and March 31, 2017.

In recent years, the Federal Government has turned more to domestic debt to raise funds for its expenditures and to finance its budget deficits. Internal debt accounted for 65.8% of total public debt as of December 31, 2016, decreasing to 64.5% as of March 31, 2017, compared to 34.6% of total public debt as of December 31, 2012. Internal debt increased in 2014, principally as no repayments on outstanding debt were made given that no Federal Budget Law was passed for 2014. The increase in internal debt in 2015 and in 2016 was instead driven primarily by the issuance of treasury bills, loans and indirect monetary financing through lending operations of Rasheed Bank and Rafidain Bank to finance the 2015 and the 2016 Federal Budget deficit.

External Debt Restructuring

In 2003, claims against Iraq were estimated at approximately U.S.$130–140 billion, and consisted of claims of Paris Club members, claims of non-Paris Club members, commercial claims and other claims. After 2003, the Federal Government focused its efforts on reducing claims against Iraq. The resolution of these claims became a fundamental concern of the Federal Government and the international community, as this was considered a key milestone to promote the country's reconstruction. UN Security Council Resolution 1483 (2003) called upon international financial institutions to assist in the reconstruction and development of Iraq, and welcomed readiness to try to solve the claims against Iraq. Since 2003, a significant reduction has been achieved in the claims against Iraq. Iraq considers that no amount is owed in relation to actions undertaken prior to 2003 that were in violation of sanctions that were imposed by the UN Security Council.

Paris Club Claims

The Paris Club is an informal group of countries that seeks to find sustainable solutions to payment difficulties in respect of their claims against other countries. It consists of 20 permanent members that hold large claims against other countries, and that agree on certain principles and rules. Relevant claims by such countries are held directly by

their governments or through relevant institutions, including export credit agencies. Paris Club members apply the terms agreed upon in "Paris Club Agreed Minutes" to their bilateral claims.

In 2003, claims against Iraq were asserted by permanent members Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom, and the United States, as well as *ad hoc* member Republic of Korea.

In November 2004, the Paris Club agreed to reduce the nominal amount of the Paris Club members' claims against Iraq by 80% (representing an 89.75% reduction in net present value terms), in three phases: 30% was immediately cancelled; a further 30% was to be cancelled upon approval of a standard IMF program, and certain other claims were to be rescheduled over a period of twenty-three years, including a grace period of six years; and a final 20% was to be cancelled upon completion of the IMF's three-year review of the implementation of the IMF program. Certain Paris Club members, including the United States, have bilaterally agreed to cancel 100% of the amounts claimed by them against Iraq.

As of March 31, 2017, U.S.$5.8 billion of Paris Club debt remains outstanding.

Non-Paris Club Claims

In 2003, 28 non-Paris Club countries held claims against Iraq. Under a "comparability of treatment" clause agreed with the Paris Club, Iraq committed to seek from eligible external claimants reduction and restructuring terms comparable in net present value to those agreed with the Paris Club.

As of the date of this Prospectus, Iraq has renegotiated the claims of 15 non-Paris Club members, providing for repayment over a period of twenty-three years or more. More than U.S.$16 billion of claims were cancelled in bilateral agreements on terms that complied with the "comparability of treatment" clause. Some countries have agreed to cancel 100% of their claims against Iraq. As of March 31, 2017, approximately U.S.$1.9 billion of non-Paris Club debt remains outstanding.

Commercial Claims

From 2005 to 2008, Iraq renegotiated the vast majority of eligible commercial claims against it, amounting to approximately U.S.$20.9 billion.

Reconciled eligible claims for less than U.S.$35 million each were settled through a cash buyback and cancellation: eligible claimants were able to receive U.S.$0.1025 in cash for every dollar of their eligible claims.

For larger eligible claims, Iraq sought a debt-for-debt swap: claimants could receive new U.S. dollar-denominated Iraqi notes due in 2028, with a par value of 20% of their eligible claims and a 5.8% coupon, with the principal amount repayable in 16 substantially equal, semi-annual installments starting on July 15, 2020. Alternatively, they could receive an interest in a multicurrency loan agreement entitling them to LIBOR + 50 bps on 40% (down to 20% upon the third reduction under the Paris Club agreement) of their eligible claims, in U.S. dollars, Euros or Yen, and the principal amount of the loan would be repayable in 34 substantially equal, semi-annual installments from July 1, 2011.

As of March 31, 2017, approximately U.S.$2.9 billion of commercial claims remain outstanding.

Other Claims

Other claims include amounts claimed by the Arab Monetary Fund and various commercial claimants (other than those covered under "—*Commercial Claims*," above). These claims amount to U.S.$0.2 billion as of March 31, 2017.

Non-renegotiated Claims

Iraq has renegotiated claims against it with all but a number of countries, which include Brazil, Egypt, Jordan, Kuwait, Morocco, Pakistan, Poland, Qatar, Saudi Arabia, Sudan, Turkey and the United Arab Emirates. Most of these claims are in various stages of negotiation. Some of these claims relate to sums allegedly accrued during the

period Iraq was subject to comprehensive sanctions, and the Federal Government thus considers them ineligible. In addition to claims from sovereign entities, there is also a relatively small amount of non-renegotiated claims from commercial creditors.

The non-renegotiated claims have not been audited and therefore there are no exact figures relating thereto, though they may amount to up to approximately U.S.$40 billion.

External Debt

The table below sets out certain information regarding Iraq's external debt as of the dates indicated. External debt is divided into "renegotiated claims," which refers to the claims against Iraq existing before 2003 and that have been renegotiated, and "new debt," which refers to the total amount of external debt incurred by Iraq since 2003. (The categories under "Renegotiated Claims" are as described in "*—External Debt Restructuring*.") The table below does not include claims existing against Iraq before 2003 that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees. See "*—External Debt Restructuring—Non-renegotiated Claims*," "*—Government Arrears*" and "*—Government Guarantees*."

	As of December 31,					As of March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(U.S.$ billions)			
Category of creditors[(1)]						
Renegotiated claims						
Paris Club	9.4	8.6	7.4	6.6	6.0	5.8
Non-Paris Club	2.7	2.5	2.4	2.2	2.0	1.9
Commercial creditors	3.6	3.6	3.6	2.9	2.9	2.9
Other	0.5	0.4	0.3	0.2	0.2	0.2
Subtotal	**16.2**	**15.1**	**13.7**	**11.9**	**11.1**	**10.8**
New debt	2.5	2.7	2.3	4.8	9.6	10.8
Total	**18.7**	**17.8**	**16.0**	**16.7**	**20.6**	**21.6**

Source: Ministry of Finance.

(1) Excludes claims against Iraq existing in 2003 that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees.

In the period between 2012 and 2015, a preponderant part of Iraq's external debt (excluding claims existing against Iraq before 2003 that have not been renegotiated, Federal Government arrears and contingent liabilities arising under Federal Government guarantees) was made up of pre-2003 renegotiated claims. Renegotiated claims amounted to 86.6% of external debt as of December 31, 2012, and such portion of total external debt decreased in 2013 (84.8% as of December 31, 2013), then increased in 2014 (85.6% as of December 31, 2014), before decreasing again to 71.3% as of December 31, 2015. By December 31, 2016, with the issuance of new debt, pre-existing claims amounted to 53.9% of external debt. As of March 31, 2017, renegotiated claims amounted to 50% of external debt. Paris Club members' claims made up the greater part of the renegotiated claims, while commercial creditors' claims ranked second, and non-Paris Club members' claims ranked third. Renegotiated claims decreased steadily during the period between 2012 and March 31, 2017.

New debt, which consists mostly of long-term borrowings, increased by 108.7% between 2014 and 2015 to U.S.$4.8 billion as of December 31, 2015, and by 100% between 2015 and 2016 to U.S.$9.6 billion as of December 31, 2016. As of March 31, 2017, new debt amounted to U.S.$10.8 billion. New debt can be expected to increase further in 2017, as Iraq seeks to finance its budget deficit. See "*Public Finance—2017 Federal Budget*" and "*—The 2017 Supplementary Budget*."

The principal facilities under which new debt has been raised are as follows:

- the disbursements under RFI in the amount of SDR 891.3 million (approximately U.S.$1.2 billion) approved by the IMF Executive Board on July 29, 2015. See "*The Economy—Arrangements with the International Monetary Fund—The Rapid Financing Instrument*";

- the first and second disbursements in the total amount of approximately U.S.$1.3 billion under the IMF's three-year Stand-by Arrangement approved by the IMF Executive Board on July 7, 2016. See "*The Economy—Arrangements with the International Monetary Fund—The Stand-by Arrangement*";

- the World Bank loan of U.S.$1.2 billion, at an interest rate based on LIBOR plus a variable spread, maturing in October 2031, approved by the World Bank Board of Directors on December 17, 2015 under the Emergency Fiscal Stabilization, Energy Sustainability and State-Owned Enterprise Transparency Development Policy Financing Project;

- the World Bank loan of approximately U.S.$1.4 billion, at a LIBOR interest rate plus a variable spread maturing in October 2034, approved by the World Bank Board of Directors on December 20, 2016 under the World Bank's Second Expenditure Rationalization, Energy Efficiency and State-Owned Enterprise Governance Programmatic Development Policy Financing Project; and

- the U.S. government loan of U.S.$2.7 billion, at an interest rate of 6.45%, maturing in 2024, for the purpose of financing expenditures of the Ministry of Defense under the U.S. government's Foreign Military Financing program. See "*Description of the Republic of Iraq—Armed Forces*."

In addition, in January 2017, the Republic of Iraq issued U.S.$1 billion principal amount of notes due 2022. The notes bear interest at a rate of 2.149%, payable semi-annually, and benefit from a full faith and credit guarantee of the United States, acting through the United States Agency for International Development ("**USAID**"), with regard to both principal and interest.

External Debt Servicing

The tables below set out certain information regarding external debt servicing payments for the periods indicated.

Interest on External Debt

	Year ended December 31,					Quarter ended March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(U.S.$ millions)			
Category of creditors						
Renegotiated claims						
Paris Club	323.3	292.7	269.2	223.9	206.9	95.7
Non-Paris Club	141.1	132.2	129.7	114.8	106.4	49.6
Commercial creditors	161.8	161.8	161.8	162.4	162.4	81.1
Other debt	5.5	3.0	2.7	1.7	1.9	0.5
Subtotal	**631.7**	**589.7**	**563.4**	**502.8**	**477.6**	**226.9**
New debt	4.4	4.5	4.7	12.1	40.5	4.8
Total	**636.1**	**594.2**	**568.1**	**514.9**	**518.1**	**231.7**

Source: Ministry of Finance.

The preponderant part of the interest payments to service Iraq's external debt were made in respect of renegotiated claims, given the large portion of external debt due in this regard. See "*—Public Debt Maturity Profile—External Debt*." Interest on renegotiated claims decreased by 24.4% in the period in the year ended December 31, 2016 as compared to the year ended December 31, 2012. The amount of interest payments on external debt with respect to renegotiated claims amounted to U.S.$226.9 million in the three months ended March 31, 2017. Interest payments

on new debt slightly increased between 2012 and 2014, from U.S.$4.4 million to U.S.$4.7 million, rising significantly thereafter to U.S.$12.1 million in 2015 and U.S.$40.5 million in 2016.

	Year ended December 31,					Quarter ended March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(U.S.$ millions)			
Category of creditors						
Renegotiated claims						
Paris Club	602.8	586.2	586.3	529.4	523.4	252.9
Non-Paris Club	574.9	166.8	166.8	166.8	166.8	83.4
Commercial creditors	0.0	0.0	0.0	6.2	6.2	3.0
Other debt	44.0	45.3	44.6	38.3	38.1	9.5
Subtotal	**1,221.7**	**798.3**	**797.7**	**740.7**	**734.5**	**348.8**
New debt	0	171.6	732.9	701.2	85.2	3.4
Total	**1,221.7**	**969.9**	**1,530.6**	**1441.9**	**819.7**	**352.2**

Source: Ministry of Finance.

Installments paid in respect of renegotiated claims decreased between 2012 and 2013, from U.S.$1.2 billion to U.S.$798.3 million. They slightly decreased in the following years reaching, U.S.$734.5 million in 2016. During the three months ended March 31, 2017, installments paid in respect of renegotiated claims amounted to U.S.$348.8 million.

Installments paid in respect of new debt increased from U.S.$171.6 million in 2013 to U.S.$732.9 million in 2014 due to the significant installments paid to the IMF and the World Bank in 2013 and 2014. The installments decreased between 2015 and 2016 from U.S.$701.2 million to U.S.$85.2 million. No installments were paid on new debt in 2012 due to grace periods for repayment under project financing agreements of the Federal Government. U.S.$3.4 million installments have been paid in respect of new debt in the quarter ended March 31, 2017.

External debt-servicing amounts, including interest and installment payments, were equal to U.S.$1.9 billion in 2012, U.S.$1.6 billion in 2013, U.S.$2.1 billion in 2014, U.S.$2.0 billion in 2015, U.S.$1.3 billion in 2016, and U.S.$0.6 billion in the three months ended March 31, 2017.

Internal Debt

Iraq's internal debt consists of:

- *treasury bills*, which are issued by the Ministry of Finance and issued to commercial banks through an auction process administered by the CBI in its capacity as fiscal agent for the Ministry of Finance (the CBI carries out the settlement between the accounts of the commercial banks and the treasury accounts held at the CBI);
- *loans from commercial banks* to the Federal Government;
- *old debt*, which includes treasury bills issued by the Ministry of Finance before 2003 and sold to the CBI, when this was still allowed (it is now prohibited); and
- *loans to self-funding companies*, which are loans from government-owned commercial banks to SOEs, with a guarantee from the Ministry of Finance that can be called in case of default.

Internal debt as of March 31, 2017 is as set forth below:

Category of internal debt	As of March 31, 2017 *(IQD trillions, except where stated otherwise)*
Treasury bills and loans to the Federal Government	34.4
Old debt	2.4
Loans to self-funding companies	9.6
Total	**46.3**
Total (U.S.$ billions)	**39.2**

Source: Ministry of Finance.

As of March 31, 2017, Iraq's internal debt amounted to U.S.$39.2 billion. The internal debt has been primarily utilized to finance the Federal Government's expenditures in connection with budgeted Federal Budget deficits, and has been increasing significantly since December 31, 2013, primarily as a result of the decline in oil-related revenues and increased spending due, among other things, to the security situation in Iraq.

Internal debt almost doubled between December 31, 2010 and December 31, 2014. The growth in the internal debt stock has been accelerating since December 31, 2013 as a result of the lack of a budget law in 2014 and the need to finance significant budget deficits in 2015 and 2016. Internal debt increased by 53.0% from December 31, 2013 to December 31, 2014, and has increased by approximately 56.6% between December 31, 2014 and December 31, 2015 and by approximately 46.5% between December 31, 2015 and December 31, 2016. The increase between December 31, 2014 and December 31, 2016 was primarily due to an increase in treasury bills and loans to the Federal Government. Internal debt decreased by 1.3% between December 31, 2016 and March 31, 2017.

To finance the budgeted Federal Budget deficit of IQD 25.0 trillion in 2017, the 2017 Supplementary Budget provides for authorization of the MoF, subject to the approval of the Council of Ministers, among other things, to conduct programs of domestic borrowing, including through the issuance of treasury bills. See "*Public Finance—2017 Federal Budget*" and "*—The 2017 Supplementary Budget.*"

Internal Debt Servicing

The tables below set out certain information regarding internal debt servicing payments for the periods indicated.

Interest on Internal Debt

	Year ended December 31,					Quarter ended March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(U.S.$ millions)			
Category of creditors						
Treasury bills	72.6	65.3	23.1	136.7	291.1	486.0
Loans to the Federal Government	0.0	0.0	0.0	0.0	64.0	40.0
Old debt	152.8	128.8	85.1	26.2	0.0	0.0
Loans to self-funding companies	0.0	0.0	0.0	0.0	118.3	16.9
Total	**225.4**	**194.1**	**108.2**	**162.9**	**473.4**	**542.9**

Source: Ministry of Finance.

Repayment of Principal of Internal Debt

	Year ended December 31,					Quarter ended March 31,
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(U.S.$ million)			
Category of creditors						
Treasury bills	3,804.3	717.9	872.2	1,796.2	451.6	664.2
Loans to the Federal Government	0.0	0.0	0.0	0.0	0.0	0.0
Old debt	343.0	343.0	257.3	84.7	0.0	0.0
Loans to self-funding companies	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4,147.3**	**1,060.9**	**1,129.5**	**1,880.9**	**451.6**	**664.2**

Source: Ministry of Finance.

Public Debt Maturity Profile

Internal Debt

Approximately IQD 34.4 trillion of Iraq's internal debt as of March 31, 2017, consisting of treasury bills and loans to the Federal Government, has a maturity no greater than one year (other than in the case of treasury bills issued in 2017, which have a maturity of two years). Iraq has typically primarily issued short terms internal debt (maturities of less than one year). All such debt is held by Iraqi banks, most of which are state-owned, and the CBI. The CBI has opened a discount window pursuant to which it conducts purchases of treasury bills acquired by Iraqi banks. In 2016, the CBI acquired treasury bills with a principal amount of IQD 10.5 trillion. Similarly to the 2017 Federal Budget Law, the 2017 Supplementary Budget provides that Iraqi banks will use IQD 5.5 trillion to acquire treasury bills. However, the CBI discontinued purchases of treasury bills pursuant to the discount window in the first quarter of 2017, as it sought to reconstitute its reserves. All loans to self-funding companies, equal to approximately IQD 9.6 trillion as of March 31, 2017, also have a maturity no greater than one year. Accordingly, out of Iraq's total internal debt as of March 31, 2017, equal to approximately IQD 46.3 trillion, IQD 44 trillion will become due within one year (with the exception of treasury bills issued in 2017, which have a maturity of two years). Since most of this debt is to government-owned entities, it is expected that it will be rolled over. The average cost of internal debt was 4.5% in 2014, 2.6% in 2015 and 5.0% in 2016.

The CBI and Ministry of Finance have entered into agreements to reschedule the reimbursement of certain internal debt. One agreement, between the CBI and the Ministry of Finance, relates to indirect loans made by the CBI to the Ministry of Finance (characterized in the tables above as "old debt"). The rescheduling provides that the Ministry of Finance will repay IQD 200 billion annually, starting in 2017.

External Debt

The table below set outs certain information regarding the maturity profile and scheduled repayments in respect of Iraq's external debt.

	Amounts falling due during						
	2017	**2018**	**2019**	**2020-2022**	**2023-2025**	**2026 and later**	**Total**
				(U.S.$ millions)			
External debt[(1)]	**1,506.6**	**1,788.6**	**2,513.6**	**10,228.6**	**6,518.1**	**6,381.4**	**28,937.0**
Principal	810.6	1,017.0	1,775.7	8,473.3	5,609.2	5,916.4	23,602.2
Interest	696.1	771.6	737.8	1,755.3	908.9	465.0	5,334.8

Source: Ministry of Finance.

(1) Includes debt outstanding as of the date of this Prospectus, together with debt expected to be incurred pursuant to signed concessionary loan agreements.

Given that additional debt has been incurred in 2017, the actual debt service payments may be greater than above.

Government Arrears

The IMF Staff Monitoring Program requested by the Federal Government in late 2015 included within its scope a focus on the audit of arrears to domestic contractors. At the time, the amount of domestic arrears was unclear, due to an absence of strong financial management on the part of the Federal Government and the lack of a budget in 2014. Following the completion of the First Review of the IMF's Stand-By Arrangement, the Federal Government agreed to have BOSA implement an audit of arrears relating to current spending and non-oil investment projects. Under the SBA, the Federal Government undertook to ensure that the level of arrears of the Federal Government to international third parties would be contained and would not increase throughout the term of the program. Accordingly, the Federal Government has committed to a zero ceiling on new external arrears to its external creditors, and in particular to eliminate new arrears to IOCs. The Federal Government also committed to limitations on the stock of domestic arrears on non-oil investment expenditure. See "*The Economy—Arrangements with the International Monetary Fund—The Staff Monitoring Program*" and "*The Economy—Arrangements with the International Monetary Fund—The Stand-by Arrangement*." As of December 31, 2016, the Federal Government identified arrears in an amount of IQD 11.1 trillion, of which IQD 2.7 trillion relate to domestic current expenditures, IQD 1.5 trillion relate to external current expenditures, IQD 4.7 trillion relate to domestic investment expenditures, and IQD 2.0 trillion relate to external investment expenditures.

As of December 31, 2015, the Ministry of Oil had arrears to IOCs under the service agreements of approximately U.S.$3.5 billion. As the negotiations with the IMF over the SBA began, the Ministry of Oil reduced those arrears to approximately U.S.$1.2 billion as of December 31, 2016. The Federal Government has committed to the IMF to reduce those amounts to zero from March 2017 onwards, which goal was achieved (other than with respect to amounts due in the form of small shipments of oil to individual IOCs that will not be shipped until the accrued volumes due make it economically efficient to do so). Outside the oil sector, and in spite of Federal Government undertakings to the IMF, the Federal Government accumulated new external arrears to foreign electricity suppliers in an amount of U.S.$1.3 billion in the second half of 2016.

As of December 31, 2016, the stock of outstanding domestic arrears on non-oil investment was IQD 4.7 trillion (approximately U.S.$4.0 billion). BOSA has audited all the arrears on non-oil investment identified by the Ministry of Planning as of December 31, 2016 and has only validated claims amounting to approximately IQD 1.4 trillion out of the claims worth IQD 4.7 trillion.

Government Guarantees

The Ministry of Finance has issued 16 foreign currency-denominated guarantees. The majority of these guarantees relate to the Ministry of Finance guaranteeing the contractual obligations of various ministries in connection with the supply of parts and services. For example, there are approximately ten guarantees issued in favor of General Electric for the provision of rehabilitation services and the provision of parts to power stations belonging to the MoE. There is also a guarantee issued in favor of the Italian company Trevi, in connection with engineering services it is providing to the Mosul Dam.

Four of the guarantees relate to the Ministry of Finance guaranteeing the purchase obligations of the MoE under executed power purchase contracts with independent power producers ("**IPPs**") for projects that are in various stages of construction. The guarantees benefitting the IPPs are for four power projects, with a total capacity of 7,400 MW, and are conditional on the commercial operation of the power plants. Thus far, only 1,000 MW of the planned capacity has come online. Following commercial operation, each project shall give rise to electricity purchase obligations imposed on the Ministry of Electricity, which obligations are guaranteed by the Ministry of Finance. These obligations, once the power plants are completed and operational, would amount to approximately U.S.$28 million per month per 1,000 MW. The guarantees are for periods ranging between 160 and 180 months depending on the project. Should all capacity come online, the MoE would be required to purchase up to U.S.$2.5 billion per year of electricity, which purchase obligations would be guaranteed by the Ministry of Finance.

In addition, two of these guarantees guarantee the repayment of approximately U.S.$1.7 billion of debt incurred by the relevant private sector project companies in respect of two projects, in Rumeila and Shatt al Basrah, to convert two simple cycle power plants into combined cycle power plant projects. Neither of these projects has achieved financial close within the agreed time frame, though negotiations to extend the deadline for financial close are on-going. As a result, the project company has not incurred the debt that the Ministry of Finance has agreed to guarantee for either project.

Furthermore, the Ministry of Finance has guaranteed credits extended in IQD by the CBI to SMEs in an amount of IQD 1.3 trillion. The program pursuant to which these credits were extended has since been suspended. In addition, the 2017 Supplementary Budget contemplates empowering the MoF, subject to the approval of the Prime Minister, to issue guarantees in the amount of U.S.$563 million and U.S.$125 million for the benefit of General Electric and STX respectively, and to sign loan agreements guaranteed by export credit agencies, including the Overseas Private Investment Corporation (OPIC). See "*Public Finance—The 2017 Supplementary Budget*."

Pursuant to the staff level agreement in the Second Review with the IMF SBA, the Federal Government established a guarantee committee at the Prime Minister's office, which has established procedures for the future issuances of sovereign guarantees. The principal provisions of this agreement are: (i) the inclusion of any future sovereign guarantees in the annual budget of the Republic and (ii) the prioritization of all guarantees across all government entities and within the investment framework established by the Ministry of Planning.

DESCRIPTION OF THE NOTES

This section of this Prospectus is only an overview of the material provisions of the Notes and the Indenture. Iraq urges you to read the Indenture for a complete description of Iraq's obligations and your rights as a holder of the Notes. Copies of the Indenture are available free of charge at the offices of the trustee and the Irish listing agent.

The Notes have been duly authorized pursuant to Iraqi law and will be issued pursuant to the trust indenture between the Republic of Iraq and The Bank of New York Mellon, London Branch, as trustee, to be dated as of August 9, 2017 (the "**Indenture**"). As used herein, "**Iraq**" means the Republic of Iraq, including its federal legislative, executive and judicial branches. For the avoidance of doubt, the term "Iraq" shall not be deemed to include any region or governorate or their respective legislative, executive or judicial branches, agencies and instrumentalities.

General Terms of the Notes

Basic Terms

The Notes will:

- be direct, general, unconditional and unsubordinated obligations of Iraq;
- be initially issued in an aggregate principal amount of U.S.$1,000,000,000; all references to the principal amount of Notes in this Prospectus are to the par value, including in the case of acceleration;
- mature on March 9, 2023;
- not be redeemable before maturity at the option of Iraq or repayable at the option of the holder and not be entitled to the benefit of any sinking fund. Iraq may at any time, however, purchase Notes and hold or resell them or surrender them to the trustee for cancellation;
- be represented by one or more registered notes in global form (see "*—Registration and Book-Entry System*"), but in certain limited circumstances may be represented by notes in certificated form;
- be eligible for settlement in DTC, Euroclear and Clearstream, Luxembourg; and
- be issued in denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof.

Interest on the Notes will:

- accrue at the rate of 6.752% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually in arrears on March 9 and September 9 of each year, beginning on March 9, 2018, to persons in whose names the Notes are registered at the close of business on the relevant record date. As used herein, "**record date**" shall mean: (i) while the Notes are in global form, the Clearing System Business Day immediately preceding the corresponding payment date; and (ii) while the Notes are in definitive form, the fifteenth calendar day preceding the corresponding payment date. As used herein, "**Clearing System Business Day**" means each Monday to Friday inclusive, except 25 December and 1 January of each year; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Status

The Notes constitute and will constitute direct, general, unconditional and unsubordinated Public External Indebtedness of Iraq for which the full faith and credit of Iraq is pledged. The Notes rank and will rank without any preference among themselves and equally with all other unsubordinated Public External Indebtedness of Iraq. It is

understood that this provision shall not be construed so as to require Iraq to make payments under the Notes ratably with payments being made under any other Public External Indebtedness of Iraq.

For purposes of the preceding paragraph, (A) "**Public External Indebtedness**" means any External Indebtedness of, or guaranteed by, Iraq which (i) is publicly offered or privately placed in securities markets, (ii) is in the form of, or represented by, bonds, notes or other securities or any guarantees thereof and (iii) is, or was intended at the time of issue to be, quoted, listed or traded on any stock exchange, automated trading system or over-the-counter securities market (including securities eligible for resale pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") (or any successor law or regulation of similar effect)); (B) "**External Indebtedness**" means Indebtedness denominated and payable, or which at the option of the holder thereof may be payable, in a currency other than the lawful currency of Iraq, but excluding Domestic Foreign Currency Indebtedness; (C) "**Domestic Foreign Currency Indebtedness**" means any Indebtedness payable by its terms, or which at the option of the holder thereof may be payable, in a currency other than IQD which is (i) offered exclusively within Iraq or (ii) issued in payment, exchange, substitution, discharge or replacement of Indebtedness payable in IQD; provided that Iraqi Government Treasury bills denominated in currencies other than IQD shall be deemed to constitute Domestic Foreign Currency Indebtedness; and (D) "**Indebtedness**" means all obligations of Iraq that are unsecured and unsubordinated in respect of money borrowed and guarantees given by Iraq in respect of money borrowed by others.

Payment of Principal and Interest

The paying agent will make payments to the registered holders of the Notes.

While the Notes are held in global form, Iraq will arrange for payments to be made on the Notes by wire transfer to the applicable clearing system, or to its nominee, or the common depositary, or to its nominee, as the registered holder of the Notes, which will receive the funds for distribution to the holders of beneficial interests in the Notes. Such holders of beneficial interests will be paid in accordance with the procedures of the relevant clearing system and its direct participants, if applicable. Neither Iraq nor the trustee shall have any responsibility or liability for any aspect of the records of, or payments made by, the relevant clearing system, its common depositary or its nominee or direct participants, or any failure on the part of the relevant clearing system or its direct participants in making payments to holders of the Notes from the funds they receive.

If any date for payments of interest, principal or other amounts contemplated herein is not a business day, Iraq will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the Notes will accrue as a result of the delay in payment. As used herein, "**business day**" means any day that is not a Saturday or Sunday, and that is not a day on which banking or trust institutions are authorized generally or obligated by law, regulation or executive order to close in New York City or London (or in the city where the relevant paying or transfer agent is located).

If any money that Iraq pays to the trustee or any paying agent to make payments on any Notes is not claimed at the end of two years after the applicable payment was due and payable, then the money will be repaid to Iraq on Iraq's written request. Iraq will hold such unclaimed money in trust for the relevant holders of those Notes. After any such repayment, neither the trustee nor any paying agent will be liable for the payment. All claims against Iraq for payment of principal of or interest (including Additional Amounts, as defined in "*—Additional Amounts*") on or in respect of the Notes shall be prescribed unless made within four years from the date on which such payment first became due, or a shorter period if provided by law. To the extent permitted by law, claims against Iraq for the payment of principal of, premium, if any, or interest or other amounts due on, the Notes (including Additional Amounts, as defined in "*—Additional Amounts*") will become void unless made within four years of the date on which that payment first became due.

Registration and Book-Entry System

Each series of Notes will be in registered form without interest coupons attached, and initially be represented by either:

- one or more unrestricted global note certificates ("**Unrestricted Global Certificate(s)**") in the case of Notes sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act; or

- one or more restricted global certificates ("**Restricted Global Certificate(s)**") in the case of Notes sold to QIBs in reliance on Rule 144A under the Securities Act.

References in this Prospectus to "**Global Certificates**" shall be construed as a references to Unrestricted Global Certificates and Restricted Global Certificates.

Each Note represented by an Unrestricted Global Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg. Each Unrestricted Global Certificate will be deposited on or about the issue date with the common depositary or such nominee.

Each Note represented by a Restricted Global Certificate will be registered in the name of Cede & Co. as nominee for DTC and the relevant Restricted Global Certificate will be deposited on or about the issue date with the custodian for DTC. Beneficial interests in Notes represented by a Restricted Global Certificate may only be held in the books of direct or indirect DTC participants at any time.

Financial institutions, acting as direct and indirect participants in Euroclear, Clearstream, Luxembourg or DTC (as applicable), will represent your beneficial interests in the global security. These financial institutions will record the ownership and transfer of your beneficial interests through book-entry accounts, eliminating the need for physical movement of securities.

The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in these Notes to such persons.

As an owner of a beneficial interest in the global securities, you will generally not be considered the holder of any Notes under the Indenture.

Certificated Securities

Iraq will issue securities in certificated form in exchange for interests in a global note only if:

- the relevant clearing system notifies Iraq that it is unwilling or unable to continue as depositary, is ineligible to act as depositary or ceases to be a clearing agency registered under any applicable statute or regulation and Iraq does not appoint a successor depositary or clearing agency within 90 days;

- at any time Iraq decides it no longer wishes to have all or part of the Notes represented by global notes; or

- an event of default under the Indenture has occurred and is continuing and the registrar has received a request for such issuance from the common depositary for Euroclear and Clearstream, Luxembourg (in the case of an Unrestricted Global Certificate) or DTC (in the case of a Restricted Global Certificate).

In connection with the exchange of interests in a global note for notes in certificated form under any of the conditions described above, such global note will be deemed to be surrendered to the trustee for cancellation, and Iraq will execute, and will instruct the trustee to authenticate and deliver, to each beneficial owner identified by the relevant clearing system, in exchange for its beneficial interest in such global note, an equal aggregate principal amount of certificated Notes.

If Iraq issues certificated Notes, they will have the same terms and authorized denominations as the Notes. For the avoidance of doubt, all certificated Notes will also be in registered form. You will receive payment of principal, interest and premium, if any, in respect of certificated securities at the offices of the trustee in London, England and, if applicable, at the offices of any paying agent. You may present certificated Notes for transfer or exchange according to the procedures in the Indenture at the corporate trust office of the trustee in London, England and, if applicable, at the offices of any other transfer agent appointed by Iraq.

The Irish Stock Exchange (the "**Exchange**") will be informed before Iraq issues certificated Notes in exchange for the global note held by the common depositary or the Custodian for DTC. If Iraq issues such certificated Notes, it will publish notices in a newspaper with general circulation in Ireland (which Iraq expects to be the Irish Times), and on the website of the Exchange at www.ise.ie, announcing procedures for payments of principal, interest and

premium, if any, in respect of or transfer of certificated securities in Ireland. If publication in a newspaper with general circulation in Ireland is not practicable, Iraq will publish such notices in a leading English language daily newspaper with general circulation in Europe. Iraq will consider any published notice to be given on the date of its first publication.

You may be charged for any stamp duty, tax or other governmental charge that must be paid in connection with the transfer, exchange or registration of transfer of Notes and any other expenses (including the fees and expenses of the trustee) connected with the preparation and issuance of the substitute Note. Iraq, the trustee and any agent appointed by Iraq may treat the person in whose name any Note is registered as the owner of such Note for all purposes.

If any Note becomes mutilated, destroyed, stolen or lost, you can request a replacement by delivering the Note or evidence of its loss, theft or destruction to the trustee. Iraq and the trustee may require you to provide an indemnity satisfactory to Iraq and the trustee under which you agree to pay Iraq, the trustee or any agent appointed by Iraq for any losses they may suffer relating to the Note that was mutilated, destroyed, stolen or lost. Iraq and the trustee may also require you to present other documents or proof. After you deliver such indemnity, documents and/or proof, if neither Iraq nor the trustee has notice that a protected purchaser has acquired the Note that you are exchanging, Iraq will execute, and upon the request of Iraq, the trustee will authenticate and deliver to you, a substitute note with the same terms as the Note you are exchanging. You will be required to pay any applicable stamp duty, tax or other governmental charges and all expenses and reasonable charges associated with the replacement of this certificated security.

Further Issuances

Under the terms of the Indenture, Iraq may from time to time, without the consent of the holders of the Notes, create and issue additional notes having terms and conditions which are the same as those of the Notes in all respects, except for the issue date, issue price and first payment of interest on the Notes; provided, however, that any additional Notes subsequently issued that are not fungible with the previously outstanding Notes for U.S. federal income tax purposes shall have a separate CUSIP, ISIN or other identifying number from the previously outstanding Notes. Additional Notes issued in a qualified reopening for U.S. federal income tax purposes will be consolidated with and will form a single series with the previously outstanding Notes.

Additional Amounts

All payments by Iraq in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Iraq or any political subdivision or taxing authority or agency therein or thereof having the power to tax (for purposes of this paragraph, a "**Relevant Tax**"), unless the withholding or deduction of such Relevant Tax is required by law. In that event, Iraq will pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the amounts received by the holders of the Notes after such withholding or deduction will equal the respective amounts of principal and interest that would have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no such Additional Amounts will be payable:

(1) in respect of any Note held by or on behalf of a holder of the Notes or a beneficial owner of a Note that is liable for such taxes, duties, assessments or governmental charges by reason of such holder or beneficial owner having some present or former connection with Iraq other than merely by the holding of such Note or by receipt of income, principal or any payments in respect thereof;

(2) in respect of any Note held by or on behalf of a holder of the Notes or a beneficial owner of such Note that is liable for such taxes, duties, assessments or governmental charges by reason of the failure of such holder or beneficial owner to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Iraq, or any political subdivision or taxing authority thereof or therein, of such holder or beneficial owner or of the holder or beneficial owner of any interest in such Note or any rights in respect thereof, if (A) compliance is required by Iraq, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from all or any portion of such withholding or deduction, (B) at least 60 days prior to the first scheduled payment date for

which compliance shall be required, Iraq has notified the trustee in writing that holders of Notes must comply with such certification, identification, information or other reporting requirement in order to receive Additional Amounts and (C) such requirement is not materially more onerous to such holder or beneficial owner (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal law, regulation and administration practice (such as U.S. Internal Revenue Service Forms W-8BEN and W-9);

(3) in respect of any Note presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the Note for payment on the last day of such period of 30 days; or

(4) in respect of any payment on the Notes to a holder of the Notes that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the holder of the Notes.

As used in the preceding paragraph, "**Relevant Date**" in respect of a Note means the date on which payment in respect thereof becomes due or (if the full amount of the money payable on such date has not been received by the trustee on or prior to such due date) the date on which notice is duly given to the holders that such moneys have been so received and are available for payment.

Iraq shall pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies which arise in Iraq or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Notes or any other document or instrument referred to therein.

Iraq shall also indemnify the holders of the Notes and beneficial owners from and against any stamp, court or documentary taxes or any excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Iraq under the Notes.

All references in this Prospectus to principal of or interest on the Notes will include any Additional Amounts payable by Iraq in respect of such principal or interest.

Negative Pledge Covenant

Iraq has agreed that it will not, for so long as any Note remains outstanding create or permit to subsist any Lien, other than a Permitted Lien, upon the whole or any part of its property or assets to secure any Public External Indebtedness of Iraq unless the Notes are secured equally and ratably with such Public External Indebtedness.

As used herein, the term "**Lien**" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind under the laws of Iraq.

As used herein, the term "**Permitted Lien**" means:

(a) any Lien on property to secure Public External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which Public External Indebtedness matures (after giving effect to all renewals and refinancing's thereof) not more than one year after the date on which such Public External Indebtedness was originally incurred;

(b) any Lien on property to secure Public External Indebtedness incurred solely for the purpose of financing any acquisition by Iraq (or, in the case of Public External Indebtedness guaranteed by Iraq, the obligor in respect of such debt) of such property, and any renewal or extension of any

such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof;

(c) any Lien on property arising by operation of law other than the law of Iraq (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law other than the law of Iraq) in connection with Public External Indebtedness, including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);

(d) any Lien existing on property at the time of acquisition, and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the financing secured by such Lien at the time of such acquisition without increase in the amount thereof;

(e) any Lien in existence as of the date of the issuance of the Notes; and

(f) any Lien securing Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that (a) the holders of such Public External Indebtedness agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (b) the property over which such Lien is granted consists solely of such assets and revenues.

Events of Default and Acceleration of Maturity

Each of the following is an event of default with respect to the Notes:

(a) Iraq fails to pay any principal due on the Notes when due and payable for 15 days after the applicable payment date; or

(b) Iraq fails to pay any interest or Additional Amounts due on the Notes when due and payable for 30 days after the applicable payment date; or

(c) Iraq fails to duly perform or observe any other term or obligation contained in the Notes or the Indenture, which failure continues unremedied for 45 days after written notice thereof has been given to Iraq by the trustee, or persons holding debt securities representing 25% of the aggregate principal amount of the Notes then outstanding, with a copy of such notice to be provided to the trustee; or

(d) Public External Indebtedness of Iraq (other than any Exempt Debt (as defined below)) issued, or amended as to payment terms, on or after the original issuance date of the Notes, having an aggregate principal amount of not less than U.S.$50,000,000 (or its equivalent in other currencies) becomes due and payable due to acceleration upon an event of default and such acceleration shall not have been rescinded or annulled; or

(e) A Relevant Body or Official (as defined below) declares the Notes or the Indenture invalid or unenforceable or declares a general suspension of payments or a moratorium on payment of Iraq's Public External Indebtedness (other than any Exempt Debt) issued, or amended as to payment terms, on or after the original issuance date of the Notes; or

(f) The validity of the Notes or the Indenture is contested in a formal administrative, legislative or judicial proceeding by a Relevant Body or Official that denies any of Iraq's obligations hereunder or thereunder to any of the holders of the Notes; or any constitutional provision, treaty, convention, law, regulation, official communique, decree, ordinance or official policy of Iraq, or any final decision by any court of Iraq having jurisdiction, shall purport to render any material provision of the Notes or the Indenture, invalid or unenforceable or shall purport to prevent or

delay the performance or observance by Iraq of any of its material obligations hereunder or thereunder to any of the holders of the Notes; or

(g) Any constitutional provision, treaty, convention, law, regulation, ordinance, decree consent, approval, license or other authority necessary to enable Iraq to make or perform its material obligations under the Notes or the Indenture (including those set forth under "*—Additional Amounts*"), or for the validity or enforceability thereof, shall expire, is withheld, revoked or terminated or otherwise ceases to remain in full force and effect, or is modified in a manner which materially adversely affects, or may reasonably be expected to materially adversely affect, any rights or claims of any of the holders of the Notes; or

(h) Iraq ceases to be a member of, or eligible to use the general resources of, the International Monetary Fund, and such failure continues for a period of 60 days.

If any of the events of default described above occurs and is continuing, holders of at least 25% of the aggregate principal amount of the Notes then outstanding may declare all of the principal amount (that is, the par value) of the Notes then outstanding to be immediately due and payable by giving written notice of any such event of default and its continuance to Iraq, with a copy to the trustee, and the same shall become and shall be due and payable upon the date that such written notice is received by or on behalf of Iraq, unless prior to such date all events of default in respect of all the Notes shall have been cured or remedied. If the Notes are issued at a discount to their stated principal amount, holders of the Notes bear the risk that upon such an acceleration, they may be unable to collect a portion of the difference between the principal amount of the Notes and the issue price if a court applying New York law deems such portion to be unearned interest. See "*Risk Factors—Risks factors relating to an investment in the Notes—The Notes may be issued at a discount to their stated principal amount.*"

If, at any time after Notes shall have been declared due and payable, Iraq shall pay or shall deposit (or cause to be paid or deposited) with the trustee a sum sufficient to pay all amounts of interest and principal due upon all the Notes (other than amounts due solely by acceleration) (with interest on overdue amounts of interest, to the extent permitted by law, and on such principal of each Note at the rate of interest specified in the Note, to the date of such payment) and such amount as shall be sufficient to cover the reasonable fees and expenses of the trustee, including, without limitation, the fees and expenses of its counsel, and if any and all events of default under the Notes, other than the non-payment of principal on the Notes which shall have become due solely by declaration of acceleration, shall have been remedied, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Notes then outstanding, by written notice to Iraq and to the trustee, may, on behalf of the holders of all of the Notes, waive all defaults and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent on any subsequent default.

As used herein, "**Exempt Debt**" means Indebtedness of Iraq incurred or disbursed prior to June 30, 2004 and "**Relevant Body or Official**" means, with respect to a specified action, a body or official of Iraq that is authorized in each case by the law of Iraq to take the relevant action and, acting alone or together with another such body or official, has the power or authority under the law of Iraq to take such relevant action.

Suits for Enforcement and Limitations on Suits by Holders

If an event of default for the Notes has occurred and is continuing, the trustee may, in its discretion, institute judicial action to enforce the rights of the holders. With the exception of a suit brought by a holder on or after the stated maturity date to enforce its absolute right to receive payment of the principal of and interest on the Notes on the stated maturity date therefor (as that date may be amended or modified pursuant to the terms of the Notes, but without giving effect to any acceleration), a holder has no right to bring a suit, action or proceeding with respect to the Notes unless: (1) such holder has given written notice to the trustee that a default with respect to the Notes has occurred and is continuing; (2) holders of at least 25% of the aggregate principal amount outstanding of the Notes have instructed the trustee by specific written request to institute an action or proceeding and provided an indemnity satisfactory to the trustee; and (3) 60 days have passed since the trustee received the instruction, the trustee has failed to institute an action or proceeding as directed, and no direction inconsistent with such written request shall have been given to the trustee by a majority of holders of the Notes. Moreover, any such action commenced by a holder must be for the equal, ratable and common benefit of all holders of the Notes.

Meetings, Amendments and Waivers – Collective Action

Iraq, in its discretion, may call a meeting of the holders of debt securities of a series at any time regarding the Indenture or the debt securities of the series. Iraq will determine the time and place of the meeting and will notify the holders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.

In addition, Iraq or the trustee will call a meeting of holders of debt securities of a series if the holders of at least 10% in principal amount of all debt securities of the series then outstanding have delivered a written request to Iraq or the trustee (with a copy to Iraq) setting out the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, Iraq shall notify the trustee, and the trustee shall notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notification is given.

Only holders and their proxies are entitled to vote at a meeting of holders. Iraq will set the procedures governing the conduct of the meeting and if additional procedures are required, Iraq will consult with the trustee to establish such procedures as are customary in the market.

Modifications may also be approved by holders of debt securities of a series pursuant to written action with the consent of the requisite percentage of the debt securities of such series. Iraq shall solicit the consent of the relevant holders to the proposed modification not less than 10 and not more than 30 days prior to the expiration date for the receipt of such consents specified by Iraq.

The holders may generally approve any proposal by Iraq to modify or take action with respect to the Indenture or the terms of the debt securities of a series with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the debt securities of that series.

However, holders may approve, by vote or consent through one of three modification methods, any modification, amendment, supplement or waiver proposed by Iraq that would do any of the following (such subjects referred to as "reserved matters"):

- change the date on which any amount is payable on the debt securities;
- reduce the principal amount of the debt securities (other than in accordance with the express terms of the debt securities and the Indenture);
- reduce the interest rate on the debt securities;
- change the method used to calculate any amount payable on the debt securities (other than in accordance with the express terms of the debt securities and the Indenture);
- change the currency or place of payment of any amount payable on the debt securities;
- modify Iraq's obligation to make any payments on the debt securities (including any redemption price therefor);
- change the identity of the obligor under the debt securities;
- change the definition of "outstanding debt securities" or the percentage of affirmative votes or written consents, as the case may be, required to make a "reserve matter modification";
- change the definition of "uniformly applicable" or "reserve matter modification";
- authorize, on behalf of all holders of the debt securities, the exchange or substitution of all the debt securities for, or convert all the debt securities into, other obligations or securities of Iraq or any other person; or

- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of the debt securities.

A change to a reserve matter, including the payment terms of the debt securities, can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of a series affected by the proposed modification;

- where such proposed modification would affect the outstanding debt securities of two or more series, the holders of more than 75% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met; or

- where such proposed modification would affect the outstanding debt securities of two or more series, whether or not the "uniformly applicable" requirements are met, the holders of more than 66 2/3% of the aggregate principal amount of the outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, and the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the modification, taken individually.

"**Uniformly applicable**" as referred to above, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

Iraq may select, at its discretion, any modification method for a reserve matter modification in accordance with the Indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

For so long as any series of debt securities issued under the indenture dated as of November 16, 2005 between Iraq and The Bank of New York Mellon , as a successor trustee (the "**2005 indenture**" and such securities, the "**2005 debt securities**") are outstanding, if Iraq certifies to the trustee and to the trustee under the 2005 indenture that a cross-series modification is being sought simultaneously with a "2005 indenture reserve matter modification," the 2005 debt securities affected by such 2005 indenture reserve matter modification shall be treated as "series affected by that proposed modification" as that phrase is used in the Indenture; provided that if Iraq seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of 2005 debt securities affected by the 2005 indenture reserve matter modification shall be deemed "holders of debt securities of all series affected by that modification," for the purpose of the uniformly applicable definition. It is the intention that in such circumstances, the votes of the holders of the affected 2005 debt securities be counted for purposes of the voting thresholds specified in the Indenture for the applicable cross-series modification as though those 2005 debt securities had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the 2005 debt securities, shall be governed exclusively by the terms and conditions of those 2005 debt securities and by the 2005 indenture; provided, however, that no such modification as to the Notes will be effective unless such modification shall have also been adopted by the holders of the 2005 debt securities pursuant to the amendment and modification provisions of such

2005 debt securities. For the avoidance of doubt, as a consequence of the foregoing, votes cast by holders of the 2005 debt securities will count towards the cross-series modification aggregate voting thresholds of all series of debt securities affected by the proposed cross-series modification.

"**2005 indenture reserve matter modification**" means any modification to a reserve matter affecting the terms and conditions of one or more series of the 2005 debt securities, pursuant to the 2005 indenture.

Before soliciting any consent or vote of any holder of debt securities for any change to a reserve matter, Iraq will provide the following information to the trustee for distribution to the holders of debt securities of any series that would be affected by the proposed modification:

(i) a description of Iraq's economic and financial circumstances that are in Iraq's opinion relevant to the request for the proposed modification, a description of Iraq's existing debts and description of its broad policy reform program and provisional macroeconomic outlook;

(ii) if Iraq shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

(iii) a description of Iraq's proposed treatment of external indebtedness instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and

(iv) if Iraq is then seeking any reserve matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of the debt securities of a series has approved any amendment, modification or change to, or waiver of, the debt securities or the Indenture, or whether the required percentage of holders has delivered a notice of acceleration of the debt securities of that series, debt securities will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by Iraq or by a public sector instrumentality, or by a corporation, trust or other legal entity that is controlled by Iraq or a public sector instrumentality, except that (x) debt securities held by Iraq or any public sector instrumentality of Iraq or by a corporation, trust or other legal entity that is controlled by Iraq or a public sector instrumentality which have been pledged in good faith may be regarded as outstanding if the pledgee establishes, to the satisfaction of the trustee, the pledgee's right so to act with respect to such debt securities and that the pledgee is not Iraq or a public sector instrumentality, and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the trustee in reliance on such advice and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the trustee, upon the certificate, statement or opinion of or representations by the trustee; and (y) in determining whether the trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the trustee knows to be so owned or controlled will be so disregarded. Debt securities so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee's right so to act with respect to such debt securities and that the pledgee is not Iraq or a public sector instrumentality.

As used in the preceding paragraph, "**public sector instrumentality**" means any department, ministry or agency of Iraq, and "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

Other Amendments

Iraq and the trustee may, without the vote or consent of any holder of debt securities of a series, amend the Indenture or the debt securities of the series for the purpose of:

- adding to Iraq's covenants for the benefit of the holders;
- surrendering any of Iraq's rights or powers with respect to the debt securities of that series;
- securing the debt securities of that series;
- curing any ambiguity or curing, correcting or supplementing any defective provision in the debt securities of that series or the Indenture;
- amending the debt securities of that series or the Indenture in any manner that Iraq may determine and that does not materially adversely affect the interests of any holders of the debt securities of that series; or
- correcting a manifest error of a formal, minor or technical nature.

Notices

Iraq will mail notices to holders of certificated securities at their registered addresses as reflected in the books and records of the registrar. Iraq will consider any mailed notice to have been given five business days after it has been sent. Iraq will give notices to the holders of a global note in accordance with the procedures and practices of the relevant depositary or clearing system and such notices shall be deemed given upon actual receipt thereof by the relevant depositary or clearing system.

Iraq will also publish notices to the holders (a) in a leading newspaper having general circulation in New York City (which Iraq currently expects to be The Wall Street Journal) and (b) if and so long as the Notes are listed on the Main Securities Market of the Exchange and the rules of the Exchange so require, in a leading newspaper having general circulation in Ireland (which Iraq currently expects to be The Irish Times) and on the website of the Exchange at www.ise.ie. If publication in a newspaper with general circulation in Ireland is not practicable, Iraq will publish such notices in a leading English language daily newspaper with general circulation in Europe. Iraq will consider any published notice to be given on the date of its first publication.

Governing Law

The Indenture is, and the Notes will be, governed by and construed in accordance with the law of the State of New York.

Submission to Jurisdiction

Under U.S. law, Iraq is a sovereign state. Consequently, it may be difficult for holders of Notes to obtain or realize judgments from courts in the United States or elsewhere against Iraq. Furthermore, it may be difficult for the trustee or holders to enforce, in the United States or elsewhere, the judgments of U.S. or foreign courts against Iraq.

In connection with any legal action or proceeding arising out of or relating to the Notes (subject to the exceptions described below), Iraq has agreed:

- to submit to the jurisdiction of any New York State and/or U.S. federal court sitting in New York City in the Borough of Manhattan and any appellate court of either thereof;
- that all claims in respect of such legal action or proceeding may be heard and determined in such New York State or U.S. federal court and Iraq will waive, to the fullest extent permitted by law, any objection to venue or the defense of an inconvenient forum to the maintenance of such action or proceeding; and
- to appoint CT Corporation System as its authorized agent, which is presently located at 111 Eighth Avenue, New York, New York 10011, United States of America.

The process agent will receive, on behalf of Iraq and its property, service of copies of any summons and complaint and any other process that may be served in any such legal action or proceeding brought in such New York State or U.S. federal court sitting in New York City in the Borough of Manhattan. Service may be made by mailing or delivering a copy of such process to Iraq at the address specified above for the process agent.

A final non-appealable judgment in any of the above legal actions or proceedings will be conclusive and may be enforced by a suit upon such judgment in any other courts that may have jurisdiction over Iraq.

In addition to the foregoing, holders of Notes may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any holder to bring any action or proceeding against Iraq or its property in other courts where jurisdiction is independently established.

To the extent that Iraq has or hereafter may acquire any immunity (sovereign or otherwise) in respect of its obligations under the Notes or the Indenture from jurisdiction of any court or from set-off or any legal process (whether through service of notice or otherwise) with respect to itself or any of its property, Iraq hereby irrevocably waives and agrees not to plead or claim such immunity in respect of any suit, action or proceeding arising out of or relating to the Indenture and the Notes, to the fullest extent permitted by applicable law; except that Iraq may assert, and does not waive, immunity (a) from attachment prior to judgment and attachment in aid of execution and (b) in respect of present or future property: (i) used by a diplomatic or consular mission of Iraq; (ii) of a military character and under control of a military authority or defense agency; (iii) dedicated to a public or governmental use (as distinct from property which is for the time being in use for a commercial activity within the meaning of the Foreign Sovereign Immunities Act); or (iv) that is an "antiquity" or "heritage material," as such terms are defined under Law No. 55 of 2002 for the Antiquities and Heritage of Iraq. For the avoidance of doubt, it is understood that this waiver relates only to Iraq and not to any agency or instrumentality of Iraq including the Central Bank of Iraq. Without limiting the generality of the foregoing, Iraq agrees that such agreement not to assert immunities set forth in the Notes and Indenture shall have the fullest scope permitted under the Foreign Sovereign Immunities Act and is intended to be irrevocable for the purposes of such act. Notwithstanding the foregoing, Iraq reserves the right to plead sovereign immunity under the Foreign Sovereign Immunities Act with respect to actions or proceedings brought against it under U.S. federal securities laws or any state securities laws, and Iraq's appointment of a process agent is not intended to extend to such actions or proceedings.

Holders may be required to post a bond or other security with Iraqi courts as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the Notes filed in those courts.

A holder's ability to enforce, in the courts of Iraq, a judgment obtained against Iraq in a non-Iraqi court may be limited in certain circumstances. See "*Service of Process and Enforcement of Civil Liabilities*" and "*Risk Factors—Risk Factors Relating to an Investment in the Notes—It may be difficult to enforce judgments obtained in foreign jurisdictions based on Iraq's sovereign immunity*."

Currency Indemnity

The obligation of Iraq to any holder under the Notes that has obtained a court judgment affecting those Notes will be discharged only to the extent that, on the business day following receipt of such judgment (or on the business day following that date on which it is practicable to do so), the holder may purchase U.S. dollars, referred to as the "**agreement currency**," with any other currency paid to that holder in accordance with the judgment currency. If the holder cannot purchase the agreement currency in the amount originally to be paid, Iraq agrees to pay the difference. The holder, however, agrees that, if the amount of the agreement currency purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to Iraq. The holder, however, will not be obligated to make this reimbursement if Iraq is in default of its obligations under the Notes and such default is continuing.

Concerning the Trustee

The Indenture contains provisions relating to the obligations, rights, duties and protections of the trustee, the indemnification of the trustee and the liability and responsibility, including limitations, for actions that the trustee

takes. The trustee is entitled to enter into business transactions with Iraq or any of its affiliates without accounting for any profit resulting from such transactions.

Paying Agents; Transfer Agents; Registrar

So long as the Notes are outstanding, Iraq will maintain a principal paying agent and a transfer agent in London and a registrar and transfer agent in Luxemburg. Iraq will give prompt notice to all holders of Notes of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices.

CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Indenture will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "— *Book-Entry Ownership*" and "—*Settlement and Transfer of Notes*."

Investors may hold their interests in a Global Certificate directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organizations which are Direct Participants therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Restricted Notes represented by a Restricted Global Certificate among Direct Participants on whose behalf it acts with respect to Restricted Notes and receives and transmits distributions of principal and interest on Restricted Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of Restricted Notes have accounts with respect to the Restricted Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold

Restricted Notes through Direct Participants or Indirect Participants will not possess Restricted Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Restricted Notes.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Certificates as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Description of the Notes—Certificated Securities*," DTC will cause its custodian to surrender the Restricted Global Certificates in exchange for Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of a Global Certificate registered in the name of, or in the name of a nominee for, DTC are, and will be, made to the order of DTC or such nominee (as the case may be) as the registered holder of such Note.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Certificate evidencing Unrestricted Notes will have an ISIN and a Common Code and will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depository.

DTC

The Restricted Global Certificate evidencing the Restricted Notes will have an ISIN, Common Code and CUSIP number and will be deposited with the Custodian and registered in the name of Cede & Co. as nominee of DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Clearing System which will in turn credit the relevant Direct Participants' or account holders' accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Certificate held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Certificate in respect of each amount so paid. None of the Issuer, the trustee or any other paying and transfer agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing

System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such beneficial owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a Clearing System are exchanged for Note Certificates.

No Clearing System has knowledge of the actual beneficial owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Unrestricted Global Certificates held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg, will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Restricted Global Certificates between DTC Participants, will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in dollars, or free of payment, if payment is not effected in dollars. Where payment is not effected in dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Restricted Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Certificate (subject to the certification procedures provided in the Indenture) the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of a Restricted Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Restricted Global Certificate and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global

Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a Restricted Global Certificate (subject to the certification procedures provided in the Indenture) the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of such Restricted Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by an Unrestricted Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by such Restricted Global Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the trustee any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

TAXATION

*The following discussion summarizes certain Iraq tax considerations that may be relevant to investors, and is based on the current tax laws and regulations in Iraq, their current interpretation as applied, and the current practice of the Iraqi General Commission for Taxes (the "**GCT**") on the date of this Prospectus. It also includes a limited discussion of certain United States federal income tax considerations. This discussion is based on laws, regulations, rulings and decisions now in effect and is subject to changes in tax law, including changes that could have a retroactive effect.*

The tax law and practice in Iraq are not as clearly established as those of more developed jurisdictions. Furthermore, the law, current interpretation of the law, and current practice are subject to change, including legislative and other changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation in ways that cannot be anticipated as at the date of this Prospectus, including as a result of legislative changes or different positions with regard to interpretative issues.

This summary is included for general information only and does not describe all of the Iraq tax considerations that may be relevant to holders of Notes, particularly holders of Notes subject to special tax rules. Holders of Notes are advised to consult their own professional advisors as to the consequences of purchasing Notes under the laws of Iraq related to the acquisition, ownership, and disposition of the Notes, including the relevance to such investors' particular situation, as well as under the tax laws of the country of which they are resident.

Iraq Taxation

General

The following is a summary of certain Iraqi tax considerations relevant to the acquisition, ownership, and disposal of the Notes made by corporate or individual investors. This summary does not address the availability of, or procedures for claiming, double tax treaty relief; the practical difficulties involved in claiming such relief; or the applicability of, or procedures in relation to, taxes levied by regions, municipalities, or other non-federal level authorities of Iraq.

Iraq tax considerations

Overview

Iraq's Income Tax Law (Law No. 113 of 1982, as amended) provides that non-residents carrying out a taxable activity in Iraq or earning income that "arises in Iraq" (even if not received in Iraq), are taxable in Iraq.

In assessing taxability in Iraq, Iraq's current tax law and practice distinguish between "doing business in Iraq" (a taxable activity) and "doing business with Iraq" (a not-taxable activity).

In making this determination, and based on the Income Tax Law and its related instructions, the GCT assesses the activities in light of factors that aid in the determination of whether a taxable presence has been created in Iraq. The instructions to the Income Tax Law include the following factors; the applicability of any of these factors (among others) causes a foreign company or individual having a contract with an Iraqi party to be 'doing business in Iraq' and therefore to be taxable in Iraq:

- the non-resident signs or executes the contract though its branch or office (not a local agent) in Iraq;
- the contract's legal requirements and procedures (such as clearing goods, settling customs duties and arranging for letters of credit) are executed in Iraq on behalf of the non-resident person, irrespective of whether such person has a branch, an office or an agent in Iraq;
- the contract is partially or fully paid in Iraq, irrespective of the currency; or
- the contract is settled through a barter transaction.

Where the GCT determines that a foreign entity is "doing business in Iraq" on the basis of the Income Tax Law, relevant instructions and all relevant factors, the non-resident shall be subject to tax on all income arising in Iraq, unless the income is specifically exempted from taxation in Iraq.

Chapter 2, Article 2 of the Income Tax Law lists the types of income subject to tax in Iraq, which includes any type of income not specifically exempt from income tax by the application of a law.

Acquisition of Notes

With respect to the acquisition of Notes by a foreign or non-resident company (i.e., one with no legal presence in Iraq), the mere acquisition of the Notes should not create a taxable presence for the foreign or non-resident company, as it will likely not cause the investor to be considered to be "doing business in Iraq."

Acquisition of the Notes is subject to stamp duty in Iraq at the rate of 0.02% of the value of the Notes. Under law, the investor and Iraq are jointly liable for the payment of any stamp duty due. Iraq has agreed to pay stamp duty in the circumstances described in "*Description of the Notes—Additional Amounts*."

If the acquisition of Notes was made by a company registered in Iraq (i.e., resident in Iraq), no special tax rules should apply to such a purchase.

For individual investors, the mere acquisition of Notes should not create Iraqi tax consequences, whether resident or non-resident in Iraq.

Interest on Notes

The Income Tax Law provides that interest income is a taxable source of income. In the absence of a law or Iraqi government decree based on a law granting an exemption from taxation to the interest income earned under the Notes, the interest income should be taxable to the investors.

The income tax law also provides that if interest income is due from any person residing in Iraq to a person or persons outside Iraq, the person residing in Iraq shall be responsible to apply and remit to the GCT the requisite withholding tax, which is currently set at 15%. Iraq will be obliged to pay such additional amounts on the Notes as may be necessary to ensure that the holders of the Notes receive a payment after the withholding tax equal to the payment which holders of the Notes would have received had no deduction or withholding for or on account of such withholding tax on interest been required, subject to certain standard exceptions. See "*Description of the Notes—Additional Amounts*."

For the interest income earned by persons (companies or individuals) residing in Iraq, the GCT will expect these persons to declare the interest income in their annual tax filings and pay the applicable income tax in respect of the interest income. The income tax due will be based on the income tax rate applicable to each person depending on their status (companies or individuals) and after all allowable exemptions and allowances have been taken into account in order to arrive at taxable income.

Disposal or transfer of Notes

The Income Tax Law provides that the taxable sources of income include profits arising from trading in bonds and securities. As such, in the absence of a law or Iraqi government decree based on a law granting an exemption from taxation on capital gains generated as a result of a disposal or transfer of the Notes, such capital gains should be taxable to the Note holders irrespective of whether they are resident or non-resident in Iraq.

However, the GCT's current practice and the commonly accepted interpretation of this language provides that this provision applies to the professional trading in bonds and securities, although "professional trading" is not defined in the law.

For traders in bonds and securities and other Note holders registered to do business in Iraq, the GCT will expect these persons to declare the capital gains in their annual tax filings and pay the applicable income tax in respect of the capital gains. The income tax due will be based on the income tax rate applicable to each person depending on

their status (companies or individuals) and after all allowable exemptions and allowances have been taken into account in order to arrive at taxable income.

Even though there is no specific exemption in the Income Tax Law for non-resident capital gains, no mechanism is currently in place by which the Iraqi government is able to apply the tax on the capital gains realized by traders in bonds and securities and other Note holders who are not registered to do business in Iraq. However, the GCT may attempt to subject all capital gains to taxation in Iraq irrespective of whether the capital gain is realized by a professional or non-professional trader in bonds and securities.

United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of the Notes that is, for U.S. federal income tax purposes, a citizen or resident of the United States, a U.S. domestic corporation or that is otherwise subject to U.S. federal income taxation on a net income basis in respect of the Notes (a "**U.S. Holder**"). This summary addresses only U.S. Holders that purchase Notes as part of the initial offering, and that hold such Notes as capital assets (generally, property held for investment). The summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks or other financial institutions, tax-exempt entities, partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes) or partners therein, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold the Notes as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction or persons that have a "functional currency" other than the dollar. Further, this summary does not address the alternative minimum tax, the Medicare tax on net investment income or other aspects of U.S. federal income state, local or foreign taxation that may be relevant to a holder in light of such holder's particular circumstances.

This summary is based on the Internal Revenue Code of 1986, as amended, existing, proposed and temporary U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as of the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or to differing interpretations, which could affect the U.S. federal income tax consequences described herein.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE APPLICATION TO THEIR PARTICULAR CIRCUMSTANCES OF THE U.S. FEDERAL INCOME TAX CONSIDERATIONS DISCUSSED BELOW, AS WELL AS THE APPLICATION OF U.S. FEDERAL ESTATE, GIFT AND ALTERNATIVE MINIMUM TAX LAWS, U.S. STATE AND LOCAL TAX LAWS AND FOREIGN TAX LAWS.

Payments of Interest and Additional Amounts

Payments of qualified stated interest (as defined below under "—*Original Issue Discount*") on the Notes (including additional amounts) generally will be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Interest income (including OID if any) in respect of the Notes generally will constitute foreign-source income for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Interest income generally will constitute "passive category income" for foreign tax credit purposes for most U.S. Holders. The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign income taxes, the availability of such deduction, involves the application of complex rules that depend on the U.S. Holder's particular circumstances.

U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in respect of foreign taxes and the treatment of additional amounts.

Original Issue Discount

If the Notes are issued at a discount from their stated redemption price at maturity, and the discount is equal to or more than the product of one-fourth of one per cent. (0.25%) of the stated redemption price at maturity of the Notes multiplied by the number of full years to their maturity, the Notes will be treated as issued with OID in an amount equal to the difference between the issue price and the stated redemption price at maturity of the Notes. The "issue price" of the Notes will be the first price at which a substantial amount of the Notes are sold to the public (in other words, excluding sales of Notes to underwriters, placement agents, wholesalers, or similar persons). The "stated redemption price at maturity" will include all payments under the Notes other than payments of "qualified stated interest" (as defined below).

In general, and regardless of whether a U.S. Holder uses the cash or the accrual method of tax accounting, such holder will be required to include in ordinary gross income the sum of the "daily portions" of OID on a Note for all days during the taxable year that the U.S. Holder owns such Note. The daily portions of OID on a Note will be determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that period. Accrual periods may be any length and may vary in length over the term of a Note, so long as no accrual period is longer than one year and each scheduled payment of principal or interest occurs on the first day or final day of an accrual period. The amount of OID allocable to each accrual period will be determined by: (a) multiplying the "adjusted issue price" (as defined below) of the note at the beginning of the accrual period by the yield to maturity of such note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount of "qualified stated interest" (as defined below) allocable to that accrual period.

The "**adjusted issue price**" of a Note at the beginning of any accrual period generally will be the sum of its issue price, including any accrued interest, and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest on the Note in all prior accrual periods. The term "**qualified stated interest**" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually during the entire term of a Note at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices. Payments of stated interest on the Notes should be qualified stated interest. All payments on a Note, other than payments of qualified stated interest, generally will be viewed first as payments of previously accrued OID, to the extent of the previously accrued discount, with payments considered made from the earliest accrual periods first, and then as a payment of principal. The "**yield to maturity**" of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. As a result of this "constant yield" method of including OID income, the amounts includable in income by a U.S. Holder in respect of a Note generally will be less in the early years, and greater in the later years, than amounts that would be includible on a straight-line basis.

A U.S. Holder may make an election, which may not be revoked without the consent of the Internal Revenue Service ("**IRS**"), to include in its income its entire return on a Note (i.e., the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount paid by such U.S. Holder for the Note) under the constant yield method described above.

The rules governing instruments with OID are complex, and prospective investors should consult with their own tax advisors about the application of such rules to the Notes.

Sale or Disposition of Notes

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other taxable disposition of the Notes in an amount equal to the difference between the dollar value of the amount realized upon the disposition (other than amounts attributable to accrued but unpaid interest, which will be taxed as ordinary income to the extent not previously included in gross income) and the U.S. Holder's tax basis in the Notes as determined in dollars. A U.S. Holder's tax basis in the Notes will generally equal the U.S. Holder's purchase price of the Notes increased by the amount of any OID included in the U.S. Holder's income with respect to the Notes. Gain or loss realized by a U.S. Holder on the disposition of the Notes generally will be long-term capital gain or loss if, at the time of the disposition, the Notes have been held for more than one year. The net amount of long-term capital gain realized by an individual U.S. Holder generally is subject to tax at a lower rate than short-term capital gains or ordinary income. The deductibility of capital losses is subject to limitations.

Capital gain or loss recognized by a U.S. Holder generally will be U.S.-source gain or loss. Consequently, if any such gain is subject to foreign tax, a U.S. Holder may not be able to credit the tax against its U.S. federal income tax liability unless such credit can be applied (subject to the applicable limitation) against tax due on other income treated as derived from foreign sources. U.S. Holders should consult their own tax advisors as to the foreign tax credit implications of a disposition of the Notes.

Backup Withholding and Information Reporting

Payments in respect of the Notes (including accruals of OID, if any) that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder (i) is an exempt recipient that demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. The amount of any backup withholding collected from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability, and may entitle the U.S. Holder to a refund, provided that certain required information is timely furnished to the IRS.

U.S. Holders may be subject to other U.S. information reporting requirements. Holders should consult their own tax advisors regarding the application of U.S. information reporting rules in light of their particular circumstances.

Foreign Financial Asset Reporting

Certain U.S. Holders are required to report information to the IRS with respect to their ownership of "specified foreign financial assets," which generally will include the Notes, unless the Notes are held in an account at certain financial institutions. Investors who fail to report required information could become subject to substantial penalties. Holders are encouraged to consult their own tax advisors regarding the possible implications of these rules on their investment in Notes.

PLAN OF DISTRIBUTION

Each of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc (each, a "**Joint Lead Manager**" and, together, the "**Joint Lead Managers**") and Trade Bank of Iraq (the "**Co-Manager**" and together with the Joint Lead Managers, the "**Managers**") has, in a purchase agreement dated August 2, 2017 (the "**Purchase Agreement**") and upon the terms and subject to the conditions contained therein, severally agreed to subscribe and pay for the aggregate principal amount of Notes listed next to its name in the table below at the issue price of 100.00% of their principal amount. The Issuer has agreed to pay to the Managers a fee in respect of their agreement to subscribe and pay for the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Purchase Agreement prior to the closing of the issue of the Notes.

Managers	**Principal Amount of the Notes**
Citigroup Global Markets Limited	U.S.$330,000,000
Deutsche Bank AG, London Branch	U.S.$330,000,000
J.P. Morgan Securities plc	U.S.$330,000,000
Trade Bank of Iraq	U.S.$10,000,000
Total	**U.S.$1,000,000,000**

The Managers have agreed to purchase all of the Notes being sold pursuant to the Purchase Agreement if any of these Notes are purchased. The Managers and have advised Iraq that they propose initially to offer the Notes at the price listed on the cover page of this Prospectus.

Iraq has agreed to indemnify the Managers and their affiliates against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Managers may be required to make in respect of those liabilities.

The Managers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Managers of certificates and legal opinions. The Managers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Iraq expects that delivery of the Notes will be made against payment for the Notes on August 9, 2017, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market are generally required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or on the next succeeding business days will be required to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of this Prospectus or on the next succeeding business days should consult their own advisors.

In connection with the offering, the Managers may engage in transactions that stabilize the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. If the Managers create a short position in the Notes in connection with the offering, i.e., if they sell more Notes than are listed on the cover page of this Prospectus, the Managers may reduce that short position by purchasing Notes in the open market. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

None of Iraq or the Managers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of Iraq or the Managers makes any representation that the Managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Managers, their affiliates and/or dealers and agents who participate in the distribution of the Notes have engaged in, and may in the future engage in, investment banking, commercial banking and other financial services and commercial dealings in the ordinary course of business with Iraq. They have received and will receive customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of Iraq or its affiliates. To the extent that certain of the Managers or their affiliates have a lending relationship with Iraq now or in the future, they would routinely hedge their credit exposure to Iraq consistent with their customary risk management policies. Typically, the Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Iraq's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Managers have agreed, severally and not jointly, nor jointly and severally, to offer the Notes for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold by the Managers outside the United States in accordance with Regulation S. The Purchase Agreement provides that the Managers may, through their respective U.S. affiliates, resell a portion of the Notes within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area, each Manager has represented and agreed that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Manager(s) or nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression "an offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

- the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU).

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated and invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Iraq

The marketing, offer, distribution or sale of the Notes in the Republic of Iraq shall comply with all applicable laws and regulations, including the Interim Securities Law on Securities Markets No. 74 of 2004 as amended, and any rules and regulations issued by the relevant regulatory authorities under that law and any successor legislation.

Each Manager has represented and agreed that it has complied and will comply with all applicable provisions of Iraqi law with respect to anything done by it in relation to the Notes in, from or otherwise involving Iraq.

Bahrain

This Prospectus does not constitute an offer to: (i) the Public (as defined in Articles 142-146 of the Commercial Companies Law (decree Law No. 21 of 2001 of Bahrain)) in the Bahrain; or (ii) any person in the Bahrain who is not an accredited investor.

For this purpose, an accredited investor means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1 million or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1 million; or

(c) a government, supranational organization, central bank or other national monetary authority or a state organization whose main activity is to invest in financial instruments (such as a state pension fund).

Each Manager has represented and agreed, and each further Manager appointed will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes except on a private placement basis to persons in the Bahrain who are "accredited investors."

Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of the Notes is a private placement under Article 10 or Article 11 of the "Offer of Securities Regulations" as issued by the Board of the CMA resolution number 2-11-2004 dated October 4, 2004 and amended by the Board of the CMA resolution number 1-28-2008 dated August 18, 2008 (the "**CMA Regulations**") through a person authorized by the CMA to carry on the securities activity of arranging and following a notification to the CMA under the CMA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the CMA Regulations or by way of a limited offer under Article 11 of the CMA Regulations.

Each Manager has represented and agreed that any offer of Notes to a Saudi Investor will comply with the CMA Regulations.

Investors are informed that Article 17 of the CMA Regulations place restrictions on secondary market activity with respect to the Notes, which are summarized as follows:

(a) any transfer must be made through an entity licensed by the CMA;

(b) a person (the "transferor") who has acquired Notes may not offer or sell such Notes or part thereof to any person (referred to as a "transferee") unless (i) the price to be paid by the transferee for such Notes equals or exceeds Saudi Riyals 1,000,000; or (ii) the transferee is a sophisticated investor (as defined under the CMA Regulations);

(c) if the provisions of paragraph (b) cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Notes to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1,000,000 or an equivalent amount;

(d) if the provisions of (b) and (c) cannot be fulfilled, the transferor may offer or sell the Notes if he/she sells his entire holding of the Notes to one transferee; and

(e) the provisions of paragraphs (b), (c) and (d) shall apply to all subsequent transferees of the Notes.

United Arab Emirates (excluding the DIFC)

Each Manager has represented, warranted and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities. Further, this Prospectus does not constitute a public offer of securities in the UAE and is not intended to be a public offer. This Prospectus has not been approved by or filed with the Central Bank of the UAE or the SCA.

DIFC

This document relates to an Exempt Offer as defined in, and in accordance with, the Markets Rules 2012 of DFSA. This document is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for this document. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorized financial advisor.

In relation to its use in the DIFC, this document is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the securities may not be offered or sold directly or indirectly to the public in the DIFC.

Qatar

Each Manager has represented and agreed, and each further Manager appointed will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes in the State of Qatar including the Qatar Financial Centre, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Kuwait

This Prospectus is not for general circulation to the public in Kuwait. The Notes have not been licensed for offering, marketing or sale in Kuwait by the Kuwait Capital Markets Authority or any other relevant Kuwaiti government agency. The offering, marketing or sale of the Notes in Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Law No. 31 of 1990 and the implementing regulations thereto (as amended) and Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Notes is being made in Kuwait, and no agreement relating to the sale of the Notes will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Notes in Kuwait. Interested investors from Kuwait who approach the Republic or the Managers are deemed to acknowledge that they understand this restriction and that the Notes and any related materials thereto are subject to applicable foreign laws and rules; therefore, such investors must not copy or distribute such material to any other person.

Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or sub-section 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to Section 3A.4 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

General

Each Manager has severally acknowledged that no representation is made by the Issuer or any Manager that any action has or will be taken in any jurisdiction by the Issuer or any Manager that would permit a public offering of the Notes, or possession or distribution the Prospectus in any country or jurisdiction where action for that purpose is required. Each Manager has undertaken that it will comply to the best of its knowledge and belief in all material respects, with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, in all cases at its own expense unless agreed otherwise.

TRANSFER RESTRICTIONS

The Issuer is a "foreign government" as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore, the Issuer is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

Each purchaser of Restricted Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring the Notes for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer, and (d) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has the full power to make the foregoing representations, agreements and acknowledgements on behalf of each such account.

2. It understands that the Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and that the Restricted Notes have not been and will not be registered under the Securities Act or any applicable state securities laws; it acknowledges that a Restricted Note is a "restricted security" as defined in Rule 144(a)(3) under the Securities Act; and it understands that (i) if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer the Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule144 for the resale of the Notes.

3. The Issuer has the right to refuse to honor the transfer of an interest in the Restricted Notes to a U.S. person who is not a QIB.

4. It understands that the Restricted Notes, unless otherwise agreed between the Issuer and the trustee in accordance with applicable law, will bear a legend to substantially the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO THE ISSUER, (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

5. It understands that the Restricted Notes will be evidenced by the Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person

who takes delivery in the form of an interest in an Unrestricted Global Certificate, it will be required to provide the Paying and Transfer Agent with a written certification (in the form provided in the Indenture (as defined in the Description of the Notes)) as to compliance with applicable securities laws.

6. It acknowledges that none of the Issuer, the Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Prospectus.

7. It acknowledges that the Issuer, the Trustee, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Issuer and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

8. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of the Unrestricted Notes, by accepting delivery of this Prospectus and the Notes, will have been deemed to have represented, agreed and acknowledged that:

1. It is, or at the time the Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) that it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

2. It understands that the Unrestricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs or (b) to a non U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

3. It understands that the Notes, while represented by the Unrestricted Global Certificate or if issued in exchange for an interest in the Unrestricted Global Certificate or for Unrestricted Note Certificates, will bear a legend to the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

4. It understands that Unrestricted Notes will be evidenced by a Unrestricted Global Certificate. Before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Restricted Global Certificate, it will be required to provide the Transfer and Paying Agent with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

5. It acknowledges that none of the Issuer, the Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes other than the information in this Prospectus.

6. It acknowledges that the Issuer, the Trustee, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it

by its purchase of the Unrestricted Notes is no longer accurate, it shall promptly notify the Issuer and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

GENERAL INFORMATION

Authorization

Iraq has obtained all necessary consents, approvals and authorizations in the Republic of Iraq in connection with the issue and performance of the Notes. The issue of the Notes has been duly authorized by Council of Ministers' decision 206 dated July 4, 2017 pursuant to Article 2(2)(b) of the 2017 Federal Budget Law, and pursuant to CPA Order No. 95 of 2004 (including Annex A and Annex B thereto, as amended, "**Order 95**").

Listing

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Market. It is expected that admission of the Notes to trading will be granted on or the next working day after the Closing Date.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €6,540.

Walkers Listing Services Limited is acting solely in its capacity as listing agent for Iraq in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of the Exchange for the purposes of the Prospectus Directive.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Unrestricted Global Certificate and the Common Code, ISIN and CUSIP number for the Restricted Global Certificate are as follows:

Unrestricted Global Certificate
Common Code: 166240786
ISIN: XS1662407862

Restricted Global Certificate
Common Code: 166240794
ISIN: US462652AE80
CUSIP: 462652AE8

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041, United States of America.

Litigation

Except as otherwise disclosed in this Prospectus under "*Risk Factors*" and "*The Economy—Principal Sectors of the Economy—The Oil and Gas Sector*," Iraq has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Iraq is aware) during the previous 12 months that may have, or have had in the recent past, significant effects on Iraq's financial position.

No Significant Change

Since December 31, 2016, save as disclosed in "*The Economy*," "*Public Finance*," "*Monetary System*," and "*Public Debt and Related Matters*," there has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) gross public debt, (iii) foreign trade and balance of payments figures, (iv) foreign exchange reserves, (v) financial position and resources and (vi) income and expenditure figures.

Yield

On the basis of the issue price of 100.00 per cent. of the principal amount of the Notes, the re-offer yield of the Notes is 6.750 per cent.

Address

The address of the Issuer is Ministry of Finance of the Republic of Iraq, Mohammed Al Qasem Road, Al Waziriya, Baghdad, Iraq.

Documents

For so long as the Notes are listed on the Exchange, hard copies of the Indenture may be inspected during normal business hours at the offices of the trustee as set forth on the back cover of this Prospectus. Order 95 and the 2017 Federal Budget Law are available free of charge on the website of the Ministry of Finance at http://www.mof.gov.iq. The 2017 Supplementary Budget is available free of charge on the website of the Council of Representatives at http://www.ar.parliament.iq.

Third Party Information

Iraq confirms that where information included in this Prospectus has been sourced from a third party, that information has been accurately reproduced and that as far as Iraq is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Websites

Any reference to websites in this Prospectus is for information purposes only, and such websites shall not form any part of this Prospectus.

Interested Persons

Save as described in "*Plan of Distribution*," so far as the Issuer is aware, no person involved in the offering of the Notes has any interest in the offering of the Notes that is material to the offering of the Notes.

Managers Transacting with the Issuer

Certain of the Managers and/or their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business.

ISSUER

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Republic of Iraq

JOINT LEAD MANAGERS

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United Kingdom

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1 Great Winchester Street
London EC2N 2DB
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

CO-MANAGER

Trade Bank of Iraq
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Building 22, Baghdad
Republic of Iraq

TRUSTEE, TRANSFER AGENT AND PAYING AGENT

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One Canada Square
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REGISTRAR AND TRANSFER AGENT

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