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بسم الله الرحمن الرحيم

REPUBLIC OF IRAQ
MINISTRY OF FINANCE

Press Release **For Immediate Release**

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Iraq Announces Launch of Debt-for-Debt Exchange Offer

Baghdad, Iraq: The Republic of Iraq today announced that it had sent invitations to participate in a debt-for-debt exchange offer to holders of large Saddam-era commercial claims against Iraq and Iraqi public sector obligors. The claimants receiving these invitations hold claims totaling in aggregate approximately U.S. $13.6 billion, or 62% of all of the commercial claims registered with Iraq's debt reconciliation agent, Ernst & Young, and eligible for reconciliation pursuant to Iraq's Request for Information dated December 9, 2004.

The financial terms of the debt-for-debt exchange offer are substantially as described in Iraq's press release dated July 26, 2005, although in a number of areas the offer reflects suggestions received from claimants since the date of that press release.

Background

This round of invitations constitutes the third and largest (by amount of claims covered) installment of Iraq's program to settle outstanding commercial claims. Of the estimated $130 billion in Saddam-era claims against Iraq held by both commercial and bilateral creditors, commercial claimants have submitted claims representing in aggregate approximately $22 billion.

Iraq has successfully concluded two cash buyback offers to commercial claimants with smaller individual claims that total in aggregate approximately $1.6 billion.

Iraq expects that commercial claimants that have registered their claims with Ernst & Young but have yet to receive a settlement offer from Iraq will receive either a cash offer (if the aggregate amount of its registered claims as of August 6, 1990 is below the U.S. $35 million threshold) or a debt offer (if the aggregate amount of its registered claims is above the U.S. $35 million threshold) as further progress on the reconciliation of their claims is made during the first quarter of 2006.

Comparability of Offer Terms

Both the cash buyback offer and the debt-for-debt exchange offer being made to commercial claimants have financial terms that are comparable, in net present value terms, to each other and to the financial terms of the settlement reached between Iraq and the Paris Club of creditor countries on November 21, 2004 (to which a number of other creditor countries also have subsequently agreed).

Terms of the Offer

The claimants receiving invitations this week may elect to receive either privately-placed notes or an interest in a multicurrency loan in exchange for the reconciled eligible amount of its claims (principal plus interest calculated pursuant to the "Reconciliation Methodology" posted in June on the Ernst & Young Iraq Debt Reconciliation Office website, www.eyidro.com, which will be accrued to and excluding January 1, 2006).

The privately-placed notes will take the form of U.S. Dollar-denominated notes with a maturity of January 15, 2028 and a fixed coupon of 5.80% p.a. These notes will be exchanged at a ratio of 20% (for each $1000 in tendered reconciled eligible claims, the tendering holder will receive new notes with a $200 face amount). The first interest payment will occur on July 15, 2006 (paying interest accrued since January 1, 2006) with interest paid semi-annually in arrears thereafter. Principal amortizations of the notes will commence, in equal semi-annual installments, on July 15, 2020.

The multicurrency loan will have financial terms that closely replicate the financial terms of Iraq's November 21, 2004 Agreed Minute with its Paris Club creditors and will be exchanged at a ratio of 40% (for each $1000 in tendered reconciled eligible claims, the tendering holder will receive an interest in the new loan of $400 face amount). Consistent with the terms of Iraq's Paris Club agreement, upon the completion of the final review of a three-year implementation of a Stand-By Arrangement with the International Monetary Fund, the outstanding principal of the loan will at that time be reduced by a further 50% (in effect resulting, at such time, in a final exchange ratio equal to approximately 20%).

The loan will mature in January 2028. Interest accruing through 2008 will be fully capitalized, and interest accruing during 2009 and 2010 will be partially capitalized on a declining basis. Principal amortizations of the new loan will commence, in equal semi-annual installments, in July 2011. Tranches of the loan may be denominated in U.S. Dollars, Japanese Yen or Euros. Interest will accrue at a margin of 50 basis points over the applicable London Interbank Offered Rate for each currency.

It is a condition to the closing of both the privately-placed notes and the new loan that Iraq shall have concluded an agreement on a Stand-By Arrangement with the International Monetary Fund. The loan will be issued only if a minimum subscription threshold is met. If that threshold is not met, all tendering holders will instead receive the notes.

Reaction

"The launch of Iraq's debt-for-debt exchange offer marks a major milestone on Iraq's path toward resolving Iraq's Saddam-era debt," said Ali A. Allawi, Iraq's Minister of Finance. "By making debt-for-debt offers to our larger commercial creditors on terms comparable (in present value terms) to those agreed with the Paris Club last fall, Iraq is demonstrating its commitment to treating all creditors in a fair, transparent and even-handed way."

Sinan Al-Shabibi, Governor of the Central Bank of Iraq, commented, "In addition to the bilateral agreements currently being negotiated with governmental creditors and the on-going successful cash buyback program for commercial claims, this debt exchange offer is the final component of Iraq's program to resolve the debt stock that was accumulated under the Saddam regime."

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