

جمهورية العراق  
وزارة المالية

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



REPUBLIC OF IRAQ  
MINISTRY OF FINANCE

**Press Release**

**For Immediate Release**

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**Iraq Announces Terms of Commercial Debt Settlement Offer**

**Baghdad, Iraq:** The Republic of Iraq today announced its intention to offer to settle outstanding Saddam-era commercial claims against Iraq and Iraqi public sector obligors through a cash buyback (for claimants holding a relatively small aggregate amount of registered claims) and a debt-for-debt exchange (for claimants with a larger aggregate amount of registered claims). The total amount of Saddam-era claims against Iraq held by both commercial and bilateral creditors has been estimated at more than \$125 billion. Of this amount, commercial creditors are believed to hold claims totaling approximately \$20 billion, although firm figures will not be known until the reconciliation process is complete.

**Eligible Claims**

The claims eligible to be tendered in connection with Iraq's offer must meet the criteria of "Specified Debt", as described in the Request For Information posted last December on a website by Iraq's debt reconciliation agent, Ernst & Young, at [www.eyidro.com](http://www.eyidro.com). Such claims will have been reconciled pursuant to the procedures described in an explanatory memorandum also posted on that website.

In connection with the announcement of this offer, Iraq also announced that the claims registration process would be reopened to allow claimants to register with Ernst & Young (the first step in the claims reconciliation process) any eligible claims that have not previously been submitted to Ernst & Young or included in a submission by one of Iraq's governmental creditors. This reopening period will expire at the close of business in London on August 8, 2005.

Eligible claims are outstanding contractual claims against certain Iraqi obligors/guarantors that arose prior to August 6, 1990 (the date of the United Nations sanctions imposed in connection with the first Gulf War) that are now held by non-governmental creditors and have not otherwise been submitted as part of a claim by a governmental creditor. Eligible claims include claims against Rafidain Bank and Rasheed Bank that meet these criteria. Eligible claims that have been converted into court judgments or arbitral awards will be eligible to participate in this offer as if they had not been the subject of a litigation or arbitration.

### Comparability of Settlement Terms

In November 2004, Iraq reached an agreement in principle with its governmental creditors comprising the Paris Club, which together hold a plurality of the total outstanding claims against Iraq. Both the purchase price for the cash-eligible claims and the financial terms of the instruments to be offered in the debt-for-debt exchange in this offer have been set at a level that is comparable, in net present value terms, to the settlement reached with the Paris Club. That settlement called for a cancellation of 80% of the total claims held by Paris Club creditors in three installments, with the residual 20% to be repaid over a 23-year period with six years of principal grace.

### The Cash Offer

Subject to the availability of sufficient funds, Iraq expects to make a cash buyback offer to the holders of smaller aggregate amounts of reconciled eligible claims. For this purpose, a claimant currently registered with Ernst & Young with reconciled eligible claims will be eligible to receive the cash buyback offer if the aggregate amount of its outstanding registered claims as of August 6, 1990 is U.S. \$35 million or less (or its equivalent in other currencies). Claimants with aggregate registered claims above that threshold will be eligible to receive the debt-for-debt exchange offer (described below) only. Any claimants that have not previously registered claims and that register claims for the first time during the reopening of the Ernst & Young website will, regardless of the size of their aggregate claims, be eligible to participate in the debt-for-debt exchange offer (subject to applicable legal restrictions) only.

Iraq estimates that more than 85% (by number) of its non-governmental creditors holding Saddam-era claims will be eligible to receive the cash buyback offer.

The cash purchase price for reconciled eligible claims held by claimants eligible for the cash buyback will equal 10.25% of the reconciled outstanding amount of those claims (including principal and accrued interest

calculated pursuant to the Reconciliation Methodology posted on Iraq's debt reconciliation website) on the date of repurchase by Iraq.

Iraq's cash buyback offer is expected to take the form of an Invitation to Tender Claims that will be addressed individually to claimants eligible for the cash buyback with respect to claims that have been reconciled by Ernst & Young. Holders electing to tender their reconciled claims pursuant to Iraq's Invitation will agree, in return for a cash payment of the purchase price, to the full cancellation and discharge of all amounts due in connection with the tendered claims.

Closings of the cash offer are expected to occur periodically during 2005 and early 2006 as eligible claims become reconciled and are tendered pursuant to subsequent invitations to claimants to tender their reconciled claims under this offer.

#### The Debt-for-Debt Exchange Offer

For claimants holding an aggregate amount of eligible claims above the U.S. \$35 million threshold referred to above (as of August 6, 1990), Iraq expects to make an offer to exchange the reconciled eligible amount of those claims (principal plus calculated interest accrued through the date of exchange) for two new debt instruments: a syndicated loan or a privately-placed bond. The Republic of Iraq will be the obligor under both instruments. The choice of which instrument to take will be at the election of the claimant. Iraq currently anticipates making this debt-for-debt exchange offer in the fourth quarter of 2005 following the signing of a standby arrangement with the International Monetary Fund.

The syndicated loan will have financial terms that closely replicate the financial terms of Iraq's November 21, 2004 Agreed Minute with its Paris Club creditors (including the conditions precedent to any installments of debt cancellation not yet effective at the time of issuance of the loan). The loan will mature in January 2028, with a principal grace period lasting until July 2011. Principal amortizations of the new loan will commence, in equal semi-annual installments, in July 2011. Interest accruing through the end of 2007 will be fully capitalized, and interest accruing during 2008, 2009 and 2010 following the third installment of debt cancellation will be partially capitalized on a declining basis.

Available currencies under the loan will be limited to U.S. Dollars, Japanese Yen and Euros. Interest will accrue at a spread of 50 basis points over the applicable LIBOR equivalent base rate.

The privately placed bond will also have a maturity of January 2028, but will be exchanged at a 20% exchange ratio (that is, for each \$100 reconciled amount of tendered eligible claims, including calculated interest accrued through the date of exchange as described above, the tendering holder will receive a new bond with a \$20 face value). Principal amortizations of the new bond will commence, in equal semi-annual installments, in July 2020.

The coupon on the bond will be set at LIBOR plus 50 basis points or, at the election of Iraq, at an equivalent fixed rate.

The bond will be denominated only in U.S. Dollars and will be eligible for clearing through Euroclear and Clearstream, Luxembourg.

Based on current market conditions, both the syndicated loan and the privately placed bond will have a net present value comparable to the Paris Club financial terms and to the level of the cash buyback price.

In the event of an assignment or transfer of legal title to registered claims, any assignee will be bound by the cash buyback or debt-for-debt exchange eligibility of the originally registered holder.

Iraq will consider putting in place a program that would allow the conversion of the new debt instruments issued in this exchange into equity in Iraqi investments.

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Neither this release nor any of the documents referred to herein constitute an offer by the Republic of Iraq or by any other party to settle or exchange any outstanding claims, nor do they constitute an admission or acknowledgement of any such claim, or an acknowledgement that any such claim exists or has been revived or reinstated, or an express or implied promise to pay any such claim or any part thereof. This release and the documents referred to herein are expressly published without prejudice. All defenses available to the Republic of Iraq and any other party based upon any applicable statute of limitations or otherwise are expressly preserved. Neither this release nor the documents referred to herein may be relied upon as evidence of the existence of any claim or the willingness or ability of the Republic of Iraq or any party to pay any such claim.