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Institution: Swedish Investment Bank Ltd.

Location: Stockholm, Sweden

Size: 12/31/74
Assets: U. S. \$672.8 million
Capital: U. S. \$270.9 million

Purpose: Swedish Investment Bank Ltd. ("SIB") was established in 1967 by an act of the Swedish Parliament to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalization, structural adaptation and development. The act establishing SIB contemplated that its lending will be consistent with national economic policies. All of the capital stock of SIB is owned by the Swedish Government. In addition, the Swedish Government has extended a limited guarantee of SIB's obligations.

Source of Funds: Subscribed capital, reserves, net income, cash flow from lending operations and borrowing.

Management Structure: Governed by a Board of Directors (9) and Deputy Directors (9). Ongoing operational responsibility rests with Managing Director and Staff. Total employees: 31, 22 of whom are managerial or professional. In certain loan and credit evaluations, SIB engages special consultants.

Management of Funds: Internal. Bank's staff consists primarily of "lending officers" with previous commercial and investment banking experience.

Portfolio: SIB makes medium (5-10 years) and long-term (10-20 years) loans and guarantees thereof principally to or for private Swedish companies to finance industrial projects in Sweden and, to a lesser extent, Swedish exports. Such financing is not generally available from other sources in Sweden and may involve additional risks especially those related to long-term developments, which would not normally be assured by conventional Swedish lending institutions. SIB is also authorized to make equity investments.

In assessing individual projects, SIB pays particular attention to the commercial viability of the project concerned. SIB also considers the impact of the use

Portfolio:
(cont'd.)

of proceeds on the Swedish economy. One of SIB's objectives is to earn a satisfactory return on its equity capital and it applies credit standards and negotiates loan terms consistent with this purpose.

At 12/31/74, SIB's outstanding loans totalled U. S. \$517.6 million and its guarantees outstanding totalled U. S. \$15.8 million.

Capital Structure:

	12/31/74		
Debt	U. S.	\$487.8 million	64.3%
Capital	U. S.	<u>270.9 million</u>	<u>35.7</u>
	U. S.	\$758.7 million	100.0%

Income:

10% of net income allocated to statutory reserve.
Substantially all net income to date retained by SIB.
Income not exempt from taxation.

SDR 40,000,000
(Special Drawing Rights)

**SVERIGES INVESTERINGSBANK
AKTIEBOLAG**

(Swedish Investment Bank Limited)

wholly-owned by the

Kingdom of Sweden

9% Bonds Due 1982

The Offering Price of the Bonds is 100 per cent. of the principal amount, plus accrued interest from 1st July, 1975 to the date of delivery. Subscription is to be made in United States dollars at a subscription price of U.S.\$1,246.48 per Bond plus accrued interest to the date of delivery.

The value of the SDR, subject as set forth herein, is equal to the value of one special drawing right of the International Monetary Fund, which at present is valued on the basis of specified amounts of 16 currencies, as more fully set forth herein. The value of the International Monetary Fund special drawing right in terms of the United States dollar as of the date of this Prospectus, as determined by the International Monetary Fund, is U.S.\$1.24648.

The Bonds will rank as direct unsecured obligations of Sveriges Investeringsbank Aktiebolag. Mandatory redemption will be by instalments of SDR 10,000,000 on 1st July in each of the years 1979, 1980 and 1981. Save as referred to herein, the Bonds may not be optionally redeemed prior to 1st July, 1979.

Payments of principal, premium, if any, and interest will be made in United States dollars, and without withholding or deduction for or on account of Swedish taxes to the extent set forth under "Description of Bonds—Taxation". Interest is payable annually on 1st July in New York City, Amsterdam, Basle, Brussels, Frankfurt/Main, Geneva, London, Luxembourg, Milan, Paris and Zurich.

Application has been made to list the Bonds on the Luxembourg Stock Exchange.

The Bonds have not been registered under the United States Securities Act of 1933 and may not be offered or sold directly or indirectly in the United States of America (including its territories, its possessions and all areas subject to its jurisdiction), or to nationals or residents thereof. See "Underwriting and Subscription" herein.

It is expected that delivery of the Bonds will be made at the offices of Credit Suisse White Weld Limited, 122 Leadenhall Street, London EC3V 4QH, on or about 8th July, 1975.

Credit Suisse White Weld Limited

Swiss Bank Corporation
(Overseas) Limited

Union Bank of Switzerland
(Securities) Limited

Kredietbank S.A.
Luxembourgeoise

Dresdner Bank Aktiengesellschaft

S. G. Warburg & Co. Ltd.

Post-och Kreditbanken
PKbanken

Skandinaviska Enskilda
Banken

Svenska
Handelsbanken

The date of this Prospectus is 19th June, 1975

No dealer, salesman or any other person has been authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by Sveriges Investeringsbank Aktiebolag (the "Bank") or by the banks named on the front page of this Prospectus (the "Managers") or by any of the underwriters. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof. This Prospectus does not constitute an offer or solicitation with respect to any security other than the Bonds offered hereby or by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

This Prospectus has been prepared and compiled by the Bank, which has given written assurances to the Managers that the information contained herein is accurate and that there are no other material facts the omission of which would make any statement herein misleading.

In this Prospectus, all references to dollars or "\$" are to United States dollars. Except as otherwise indicated, the U.S. dollar amounts appearing in this Prospectus represent translations of Swedish Kronor ("Skr") amounts at the rate of 4.09 Skr to the U.S. dollar, the quoted commercial bank selling rate in Stockholm on 31st December, 1974, the last date included in the audited financial statements presented herein. Such translations should not be construed as representations that the Kronor amounts could have been or could be converted into U.S. dollars at that or any other rate. The Kronor-U.S. dollar rate has been floating since March, 1973. On 18th June, 1975, the selling rate for Kronor quoted by commercial banks in Stockholm at the close of business was 3.909 Skr to the U.S. dollar.

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In connection with this offering, the Managers may over-allot or effect transactions in the open market or otherwise with a view to stabilising or maintaining the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

DESCRIPTION OF BONDS

The Bonds will be limited to SDR 40,000,000 (Special Drawing Rights) aggregate principal amount and will be direct unsecured general obligations of Sveriges Investeringsbank Aktiebolag (the "Bank"). The Bonds will be issued under a Trust Agreement (the "Trust Agreement") dated 19th June, 1975 among the Bank and Finimtrust S.A., acting as fiduciary representative of the holders of the Bonds (the "Trustee"). The Trustee's principal office is presently located at 37, rue Notre Dame, Luxembourg City. Certain statements under this caption are summaries of, and are subject to, the detailed provisions of the Bonds and the Trust Agreement, copies of which will be available for inspection at the offices referred to under "Payment of Principal and Interest" below. Pursuant to the Trust Agreement, no holder of any Bonds or any coupons appertaining thereto may individually exercise any of his rights under the Bonds or coupons, except for the right to collect payment of the Bonds and coupons, the right to vote at general meetings of holders of Bonds and the rights expressly granted by the Trust Agreement, unless he has been so authorised by the Trustee in writing.

The issue of the Bonds was authorised by a Resolution of the Board of Directors of the Bank adopted on 25th April, 1975.

The Central Bank of Sweden gave, on 18th June, 1975, approval for the issue of the Bonds and has given an authorisation, irrevocable by its terms, under which the Bank may purchase and transfer sufficient U.S. dollars to pay interest on, principal of, and premium, if any, in respect of the Bonds.

Payment of Principal and Interest

All payments of principal, premium, if any, and interest will be made in United States dollars.

The Bonds will be dated 1st July, 1975, will mature on 1st July, 1982 and will bear interest from 1st July, 1975 at 9% per annum, payable annually in arrears on 1st July, beginning 1st July, 1976. The Bonds and coupons may be presented for payment (a) at the principal office of The Chase Manhattan Bank (National Association) in New York City (the "Principal Paying Agent") or (b) subject to applicable laws and regulations and subject to the right of the Bank to terminate or add to such offices, at the main offices of The Chase Manhattan Bank (National Association) in Frankfurt/Main, London, Milan and Paris; Crédit Suisse, Swiss Bank Corporation and Union Bank of Switzerland in Basle, Geneva and Zurich; Nederlandse Credietbank N.V. in Amsterdam; Banque de Commerce S.A. in Brussels; Banque Française de Dépôts et de Titres in Paris and Kredietbank S.A. Luxembourgeoise in Luxembourg City. Payment at the offices referred to in (b) above will be made by United States dollar cheque drawn on a bank in New York City or by transfer to a United States dollar account maintained by the payee with a bank in New York City. The amount of each payment will be computed on the basis of the value of the SDR, determined as set forth under "Computation of the Value of the SDR" below, as of the fifth business day in both London and in New York City (and, at any time contemplated by paragraph (b) under "Computation of the Value of the SDR" below, in Luxembourg City) prior to the date on which such payment is to become due. The term "business day" means any day on which banks in the relevant cities are normally open for business. The Bank will agree that so long as any Bonds are outstanding it will at all times maintain paying agents in New York City and Luxembourg City for the payment of principal of, and premium, if any, and interest on, the Bonds.

Denomination and Transfer

The Bonds will be issued as bearer coupon Bonds in the denomination of SDR 1,000 each, and title thereto will pass by delivery.

Value of the SDR

Subject to the provisions under "Computation of the Value of the SDR" below, the value of the SDR, expressed in U.S. dollars, is equal to the value of one special drawing right of the International Monetary Fund (the "IMF") in terms of the U.S. dollar. The IMF special drawing right is at present valued on the basis of specified amounts of 16 currencies as shown below. This basis may be changed by the IMF from time to time, including changes in the currencies and such specified amounts, or the addition of other

units of value, in which event the value of the SDR, subject to the provisions under "Computation of the Value of the SDR" below, will change accordingly.

Under Rule 0-3 of the IMF's Rules and Regulations as in effect on the date of this Prospectus one IMF special drawing right is deemed, for the purpose stated in said Rule 0-3, to be equal to the sum of:

U.S. Dollar	0.40	Belgian Franc	1.6
Deutsche Mark	0.38	Swedish Krona	0.13
Pound Sterling	0.045	Australian Dollar	0.012
French Franc	0.44	Danish Krone	0.11
Japanese Yen	26	Norwegian Krone	0.099
Canadian Dollar	0.071	Spanish Peseta	1.1
Italian Lira	47	Austrian Schilling	0.22
Netherlands Guilder	0.14	South African Rand	0.0082

Under said Rule 0-3, one IMF special drawing right in terms of the U.S. dollar is equal to the sum of the equivalents in U.S. dollars of the amounts of the currencies specified above, calculated on the basis of exchange rates established in accordance with procedures decided from time to time by the IMF. The IMF at present determines and publishes daily the value of the IMF special drawing right in terms of the U.S. dollar. The value of the IMF special drawing right in terms of the U.S. dollar as of the date of this Prospectus, as determined by the IMF, is U.S.\$1.24648.

Computation of the Value of the SDR

(a) Subject to the provisions set forth below, the value of the SDR, expressed in U.S. dollars, as of any day shall be equal to the value of one IMF special drawing right in terms of the U.S. dollar as determined by the IMF as of that day.

The value of one IMF special drawing right in terms of the U.S. dollar is at present equal to the sum of the equivalents in U.S. dollars of the amounts of the currencies specified under "Value of the SDR" above. Those U.S. dollar equivalents are at present determined by the IMF, pursuant to Decision No. 4234-(74/67) S, as follows. The U.S. dollar equivalent of each of the component currencies other than the U.S. dollar, except for the Japanese Yen, is determined by the IMF on the basis of the middle rates between the buying and selling spot delivery rates for the U.S. dollar quoted at noon in the London exchange market. The U.S. dollar equivalent of the Japanese Yen is determined by the IMF on the basis of its representative rate for spot delivery for the U.S. dollar, which is the middle rate on the Tokyo exchange market as ascertained by the Bank of Japan. If for any reason the rate for any currency cannot be obtained as set forth above, the rate used by the IMF in its determination of the U.S. dollar equivalent of that currency is the rate quoted at noon in the New York exchange market or, if not available there, the rate at the fixing in the Frankfurt exchange market. If rates against the U.S. dollar cannot be obtained directly in any market, the rates are to be calculated by the IMF by use of appropriate cross rates. If on any day the rate for a currency cannot be obtained as set forth above, calculations are made by the IMF on the basis of the rate for the previous business day, unless the IMF decides otherwise.

(b) If, as of any day, the value of one IMF special drawing right in terms of the U.S. dollar is not determined by the IMF, the value of the SDR as of such day, expressed in U.S. dollars, shall be determined by the Luxembourg Stock Exchange (the "Exchange") as follows:

(i) If IMF special drawing rights are valued by the IMF on the basis of one or more currencies or other units of value (other than gold alone) each of which has, in the opinion of the Trustee, a market value whose U.S. dollar equivalent can reasonably be determined, the value of the SDR as of that day shall be equal to the sum of the then U.S. dollar equivalents of the market values (as determined by the Exchange) of the amounts of currencies or other units of value used by the IMF in valuing IMF special drawing rights.

(ii) If it is impossible to determine the value of the SDR pursuant to clause (i) above, the value of the SDR as of that day shall be equal to the sum of the then U.S. dollar equivalents of the market values (as determined by the Exchange) of the amounts of currencies or other units of value

(other than gold alone) which were used by the IMF in valuing IMF special drawing rights on the most recent day on which such valuation was based solely on currencies or other units of value (other than gold alone) each of which has, as of the date of such determination by the Exchange, in the opinion of the Trustee, a market value whose U.S. dollar equivalent can reasonably be determined.

- (iii) If it is impossible to determine the value of the SDR pursuant to clauses (i) and (ii) above, the value of the SDR as of that day (the "valuation date") shall be determined as follows: the currencies or other units of value to be used in such determination shall be those which were used by the IMF in valuing IMF special drawing rights on such day subsequent to 19th June, 1975 as the Trustee shall select (the day so selected by the Trustee being hereinafter called the "component date"); and, using such currencies or other units of value, the value of the SDR as of the valuation date shall be equal to the aggregate of the following: (A) in respect of those currencies or other units of value which, in the opinion of the Trustee, have a market value whose U.S. dollar equivalent can reasonably be determined, the sum of the U.S. dollar equivalents on the valuation date of the market values (as determined by the Exchange) of the amounts of such currencies or other units of value used by the IMF on the component date in valuing IMF special drawing rights, and (B) in respect of those currencies or other units of value which, in the opinion of the Trustee, do not have on the valuation date a market value whose U.S. dollar equivalent can reasonably be determined, the sum of such U.S. dollar amounts as the Trustee shall in its discretion determine for each of such currencies or other units of value.
- (iv) Notwithstanding the provisions of clauses (ii) and (iii) above, if as of any day IMF special drawing rights are not valued by the IMF on the basis of any currency or other unit of value, but a U.S. dollar equivalent of one IMF special drawing right can be determined on the basis of an officially declared value of the U.S. dollar in terms of IMF special drawing rights and the Trustee determines that the U.S. dollar equivalent so determined is more representative of the exchange rate of the U.S. dollar in terms of IMF special drawing rights than the value of the SDR determined as set forth in clause (ii) or clause (iii) above, the value of the SDR as of that day shall be determined on the basis of said officially declared value of the U.S. dollar.

The U.S. dollar equivalents of each of such currencies or other units of value shall be determined by the Exchange by such method as may be specified by the Trustee, which shall as nearly as reasonably practicable be the same as the method last used by the IMF for that purpose. The Exchange shall obtain reference quotations as to any such currency or other unit of value from such person or persons as may be specified by the Trustee.

In the event that the reference quotations to be used by the Exchange are not available for any such currency or other unit of value as of any day, because the relevant markets are closed in any country or for any other reason, the most recent quotations for that currency or other unit of value obtained by the Exchange shall be used in determining the value of the SDR as of such day; provided, however, that such most recent quotations may be used only if they were prevailing not more than two business days before such day. After such period of two business days, the Exchange shall determine the U.S. dollar equivalent of such currency or other unit of value on the basis of such quotations, obtained as of such time and from such person or persons, as may be specified by the Trustee.

In the event that there is more than one market for dealing in any such currency or other unit of value by reason of foreign exchange regulations or for any other reason, the market to be referred to in respect of such currency or other unit of value shall be the market last referred to by the IMF for the purpose of valuation of one IMF special drawing right, except as may otherwise be specified by the Trustee.

All determinations made by the Trustee or the Exchange shall be in their sole discretion and shall be conclusive for all purposes and binding upon the Bank and all holders of Bonds or coupons.

Status of the Bonds (Negative Pledge)

The Bonds will be direct and unconditional general obligations of the Bank. The Bonds will rank at least *pari passu*, without any preference one over the other by reason of priority of date of issue or currency of payment or otherwise, with all other present and future unsecured indebtedness of the Bank. The Bank will agree in the Bonds that it will not create, assume, incur or suffer to be created, assumed or incurred any mortgage, lien, pledge, charge or other encumbrance of any kind upon any of its present or future revenues or assets, for the purpose of securing any external indebtedness, now or hereafter existing, without making effective provision whereby the Bonds then outstanding shall be directly secured by such mortgage, lien, pledge, charge or encumbrance equally and ratably upon the same revenues or assets with any and all other obligations and indebtedness thereby secured, and that the instrument creating such mortgage, lien, pledge, charge or encumbrance will expressly so provide. As used above, "external indebtedness" means any borrowing in the form of, or represented by, bonds, debentures or other securities which by their terms are payable or may be required to be paid in a currency other than Swedish Kronor and which are, or are intended to be, quoted, listed or ordinarily dealt in on any stock exchange or over-the-counter or other securities market.

Mandatory Redemption of Bonds

The Bank will be required to redeem SDR 10,000,000 principal amount of Bonds on each 1st July in the years 1979, 1980 and 1981 at 100 per cent. of the principal amount thereof plus accrued interest to the redemption date. The Bank or any of its subsidiaries may purchase Bonds for their own account at any time in the open market or otherwise at any price. All Bonds so purchased must be cancelled and may not be reissued or resold. In lieu of making all or part of any mandatory redemption payment in cash, the Bank may deliver to the Trustee, not less than 60 days prior to such mandatory redemption payment date, for cancellation, Bonds so purchased, which delivery shall be treated as equivalent to the payment by the Bank in cash for mandatory redemption purposes of an amount equal to the principal amount of the Bonds so delivered.

Optional Redemption of Bonds

At any time on or after 1st July, 1979, the Bonds will be redeemable at the option of the Bank in whole, or from time to time in part in aggregate principal amounts of SDR 250,000 or integral multiples thereof, at the following redemption prices expressed as percentages of principal amount, together with accrued interest to the redemption date if redeemed during the 12 months beginning 1st July in each of the following years:

<u>Year</u>	<u>Redemption Price</u>
1979	102%
1980	101%
1981	100½%

The Bonds are also subject to redemption if the Bank would be required to pay additional amounts as described herein under "Taxation". Upon such determination, the Bank may at its option at any time redeem the Bonds in whole at the following redemption prices expressed as percentages of principal amount, together with accrued interest to the redemption date if redeemed during the 12 months beginning 1st July in each of the following years:

<u>Year</u>	<u>Redemption Price</u>
1975 through 1979	101%
1980	100½%
1981	100¼%

Drawings and Notice of Redemption

Notice of redemption will be given not less than 30 days prior to the date fixed for redemption. Each Bond called for redemption is to be presented for redemption accompanied by all coupons appertaining thereto which are due after the date fixed for redemption; the aggregate face amount of all missing coupons due after such date will be deducted from the principal to be paid on redemption.

In case of partial redemption, Bonds to be redeemed will be selected by the Trustee in the manner provided by the Trust Agreement.

Taxation

All payments of principal, premium, if any, and interest will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Kingdom of Sweden or any authority in Sweden having power to tax, unless the Bank is required by law to deduct or withhold such taxes or duties. In that event, the Bank will pay such additional amounts as may be necessary in order that the net amounts after such deduction or withholding shall equal the respective amounts of principal, premium, if any, and interest which would have been receivable in respect of the Bonds or coupons in the absence of such deduction or withholding; except that no such additional amounts shall be payable with respect to any Bond or coupon presented for payment (a) by or on behalf of a holder who is liable to such taxes or duties on such Bond or coupon by reason of his having some connection with Sweden other than the mere holding of the Bond or coupon, or (b) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment at the close of such 30-day period. For this purpose the "relevant date" means whichever is the later of (i) the date on which such payment first becomes due, and (ii) if the full amount of the monies payable has not been received by the Principal Paying Agent on or prior to such due date, the date on which such monies shall have been so received and notice to that effect shall have been duly published.

The Bank shall not be required to make any payment with respect to any tax, assessment or governmental charge imposed by any government (or any subdivision thereof or taxing authority therein) other than the Kingdom of Sweden or any authority in Sweden having power to tax.

Events of Default

The Bonds and the Trust Agreement will provide that in case one or more of the following events ("Events of Default") shall have occurred and be continuing, that is to say:

- (a) if the principal of or premium, if any, on any of the Bonds (whether at maturity or upon redemption or otherwise) shall not be paid for a period of 7 days after the date when due; or
- (b) if any instalment of interest on any of the Bonds or any additional amounts payable pursuant to the provisions set forth under "Taxation" above shall not be paid for a period of 30 days after the date when due; or
- (c) if the Bank shall fail duly to perform or observe any term, covenant or agreement contained in any of the Bonds or the Trust Agreement for a period of 30 days after the date on which written notice of such failure, requiring the Bank to remedy the same, shall first have been given to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least a majority of the Bonds at the time outstanding; or
- (d) if an event of default as defined in any indenture or instrument evidencing or under which the Bank has at the date of the issuance of the Bonds or shall thereafter have outstanding any indebtedness for borrowed money shall happen and be continuing and such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall not have been stayed, rescinded or annulled prior to the date on which written notice of such default shall first have been given to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least 20 per cent. of the Bonds at the time outstanding; provided, however, that if such event of default under such indenture or instrument shall be remedied or cured by the Bank or waived by the holders of such indebtedness, then the Event of Default under the Bonds by reason thereof shall be deemed likewise to have been thereupon remedied, cured or waived without further action upon the part of either the Trustee or any of the holders of the Bonds; or
- (e) if the Bank shall fail to pay at the stated maturity thereof (after giving effect to any applicable grace period) any indebtedness for borrowed money and such failure shall not have been remedied or cured by the Bank or waived by the holders of such indebtedness prior to the date on which written notice of such failure shall first have been given to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least 20 per cent. of the Bonds at the time outstanding; or

(j) if the Bank is wound up or dissolved or becomes bankrupt or insolvent; then, and in each and every case, either the Trustee or the holders of a majority of the Bonds then outstanding, by notice in writing to the Bank (and to the Trustee if given by the holders of the Bonds), may declare the principal of all the Bonds to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, together with accrued interest thereon.

Listing and Notices

Application has been made to list the Bonds on the Luxembourg Stock Exchange. In connection therewith, it is anticipated that the notice relating to the issue will be deposited prior to the listing with the Chief Registrar of the District Court of Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*) where such document may be examined and copies obtained. The Articles of Association of the Bank will be deposited with the Chief Registrar prior to the listing.

Notices required to be given to holders of the Bonds will be given by publication in daily newspapers in general circulation in London and, if and so long as the Bonds are listed on the Luxembourg Stock Exchange, in Luxembourg City to the extent required by Luxembourg law or the regulations of such Stock Exchange. It is expected that such notices will be published in London in the *Financial Times* and in Luxembourg City in the *Luxemburger Wort*.

So long as any Bonds remain outstanding the Articles of Association and the annual reports of the Bank will be available for inspection at the principal offices of Kredietbank S.A. Luxembourg and the Trustee in Luxembourg.

The Luxembourg Stock Exchange has agreed to arrange for the publication, in the Official Price List, of daily valuations of the SDF in terms of the U.S. dollar.

Modification of the Trust Agreement

The Trust Agreement will contain provisions permitting the Bank and the Trustee, with the consent of the holders of not less than 66 $\frac{2}{3}$ per cent. of the Bonds at the time outstanding at a general meeting of the holders of the Bonds or of the holders of not less than 66 $\frac{2}{3}$ per cent. of the Bonds validly voting at a second meeting, to enter into supplemental trust agreements which modify the rights of the holders of Bonds and coupons, provided that certain modifications may not be effected without the consent of the holders of Bonds as more particularly set forth in the Trust Agreement.

The Trust Agreement will provide for the calling of meetings of the holders of the Bonds by the Trustee or upon request of the Bank or the holders of at least 5 per cent. of the Bonds then outstanding for, among other things, any of the following purposes: (a) to give any directions to the Trustee, (b) to waive any Events of Default, (c) to modify the Trust Agreement pursuant to its terms, (d) to remove the Trustee and appoint a successor trustee and (e) to take any other action authorised to be taken by or on behalf of the holders of any specified number of the Bonds under the provisions of the Trust Agreement or under applicable law. Depending on the purpose of the meeting, the Trust Agreement will specify that decisions shall be taken by the holders of not less than 66 $\frac{2}{3}$ per cent. or a majority, as the case may be, of the Bonds outstanding or represented at the meeting, as the case may be. The procedures respecting meetings of the holders of the Bonds are described in the Trust Agreement. The Trustee may agree, without the consent of the holders of the Bonds or coupons, to any alteration of the provisions of the Trust Agreement, the Bonds and coupons which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the holders of the Bonds or coupons.

Prescription

The right to the payment of principal (whether at maturity or at any date fixed for redemption or otherwise) or premium, if any, in respect of each Bond shall be forfeited and void 30 years from the date when such principal or premium shall have become due and payable, and the right to the payment of interest on each Bond shall be forfeited and void five years from the date when such interest shall have become due and payable; and no action, suit or other legal proceeding based on the right to payment of principal or premium, if any, or interest, as the case may be, may be commenced after the expiration of such periods.

Replacement of Bonds and Coupons

If any of the Bonds or coupons are lost, stolen, mutilated or destroyed, the Bank will deliver at the principal office of the Principal Paying Agent in London substitute Bonds or coupons, as the case may be, upon payment of the expenses occasioned thereby and subject to the production of evidence satisfactory to the Principal Paying Agent as to the loss, theft, mutilation or destruction of the Bonds or coupons and the rights of the claimant thereto and after all necessary formalities shall have been complied with, including provision for indemnities satisfactory to the Principal Paying Agent.

Governing Law and Jurisdiction

The Bonds and coupons appertaining thereto and the Trust Agreement will be governed by and interpreted in accordance with the laws of the Grand Duchy of Luxembourg, including the Grand Ducal Decree of December 22, 1972 concerning fiduciary representation.

The Trustee and, subject to the provisions of the Trust Agreement, the holders of Bonds and coupons will be free to enforce their rights against the Bank in the courts of the City of Luxembourg. For the purpose of any action or proceeding brought in the courts of the City of Luxembourg, the Bank will elect domicile at the principal office of the Trustee for all acts, formalities or procedures in connection with the Bonds and will irrevocably submit to the jurisdiction of the courts of the City of Luxembourg.

LEGAL OPINIONS

Certain legal matters in connection with the offering contained herein will be passed upon for the Bank by G. Sandströms Advokatbyrå, Sergels Torg 12, S-11157 Stockholm, Sweden, and will be passed upon for the Managers by Messrs. Shearman & Sterling, 53 Wall Street, New York, New York 10005, Messrs. Elvinger & Hoss, 84 Grand Rue, Luxembourg City and Messrs. Allen & Overy, 9 Cheapside, London EC2V 6AD. Shearman & Sterling, Elvinger & Hoss and Allen & Overy will rely upon the opinion of G. Sandströms Advokatbyrå with respect to all matters of Swedish law.

CAPITALISATION

The following table sets forth the capitalisation of the Bank as at 11th June, 1975 (except that statutory reserve and retained earnings are stated as at 31st December, 1974):

	<u>In thousands of Swedish Kronor</u>	<u>Translated into thousands of U.S. dollars</u>
Borrowings: (1)		
Short-term	Skr 103,497	\$ 25,305
Medium-term.....	418,933	102,428
Long-term	1,472,755	360,087
Total borrowings	<u>1,995,185</u>	<u>487,820</u>
Equity capital:		
Share capital	900,000	220,049
Statutory reserve	125,000	30,562
Retained earnings.....	82,836	20,254
Total equity capital	<u>1,107,836</u>	<u>270,865</u>
Total borrowings and equity capital	Skr <u>3,103,021</u>	<u>\$758,685</u>

(1) Short-term borrowings are those with a final maturity of one year or less; medium-term are those with a final maturity of more than one but less than ten years; and long-term are those with a final maturity of ten years or more. See note 4 of Notes to Financial Statements with respect to borrowings at 31st December, 1974 and note 9 of Notes to Financial Statements for borrowings since 31st December, 1974.

USE OF PROCEEDS

The net proceeds from the sale of the Bonds offered hereby are estimated to be \$48,525,000. It is expected that the entire net proceeds will be converted into Swedish Kronor and used by the Bank to make loans in Kronor to companies in Sweden. However, it is possible that a small part of the net proceeds may be used to make dollar loans in connection with the Bank's export financing activities. Pending such uses, the net proceeds will be invested in short-term obligations, which may include dollar obligations.

The Bank anticipates that it will incur additional borrowings for use in its lending activities from time to time during the remainder of 1975 and thereafter. The amount and timing of such borrowings will depend upon the Bank's commitments and the terms available to it in the Swedish and international capital markets.

SVERIGES INVESTERINGSBANK AKTIEBOLAG

The Bank was established in 1967 pursuant to Government Proposition No. 56 of 1967 (the "Proposition") approved by the Swedish Parliament. The Bank's primary purpose is to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalisation, structural adaptation and development. The Bank also participates in the financing of Swedish exports.

All of the share capital of the Bank was subscribed to and is owned by the Kingdom of Sweden (the "Kingdom"). The Kingdom has guaranteed the obligations of the Bank up to an amount of Skr 2,000 million (\$489 million). See "Guarantee of the Kingdom of Sweden".

As of 31st December, 1974, the total equity capital of the Bank was \$270.9 million. At the same date, the Bank had loans and guarantees outstanding of \$520 million and \$15.8 million, respectively, and undisbursed loan commitments of \$3/4 million. (As used in this Prospectus, except in the financial statements, loans include advances to subsidiaries and affiliates.)

The Bank's business is the making of medium-term (5 to 10 years) and long-term (10 to 20 years) loans, principally to finance industrial projects in Sweden and, to a lesser extent, to finance exports by Swedish companies. Such medium- and long-term financing is generally not otherwise available in the Swedish capital market and, as contemplated by the Proposition, may involve additional risks, principally relating to long-term developments, which would not normally be assumed by conventional Swedish lending institutions. In assessing individual loan proposals, the Bank's primary consideration is the commercial viability of the project involved. In certain cases the Bank also considers the potential impact of the use of proceeds on the economy of Sweden. Although the Bank is also authorised to make equity investments as a method of long-term financing, it has rarely chosen to do so.

The Bank is not authorised to accept deposits from the public and is principally dependent upon its equity and borrowings in the Swedish and international capital markets to provide the funds needed for its lending activities.

Although the Proposition contemplates that the Bank's lending activities will be consistent with national economic policies, the Bank has a high degree of autonomy in determining its own policies and in its day-to-day operations. The Bank seeks to earn a satisfactory return on its equity capital and applies credit standards and negotiates loan terms to achieve this objective.

The principal office of the Bank is located at Regeringsgatan 107, Stockholm, Sweden.

STATEMENT OF INCOME

The following statement of income of Sveriges Investeringsbank Aktiebolag for the five years ended 31st December, 1974, insofar as it is expressed in Swedish Kronor, has been examined by Messrs. Tore Henckel and Bruno Svensson, authorised public accountants in Sweden, whose report thereon appears elsewhere in this Prospectus. The statement is presented in accordance with accounting principles generally accepted in Sweden. The statement should be read in conjunction with the other financial statements and related notes included elsewhere herein. The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of mathematical computation only, at the rate of Skr 4.09 to U.S.\$1 (see note 2 of Notes to Financial Statements).

	Year ended 31st December					Year ended 31st December				
	1970	1971	1972	1973	1974	1970	1971	1972	1973	1974
	In thousands of Swedish Kronor					Translation into thousands of U.S. dollars				
Operating Revenue										
Interest and fees on loans.....	Skr 26,638	62,083	93,003	122,649	147,683	\$ 6,513	15,179	22,739	29,987	36,108
Interest on deposits with banks and investments.....	75,547	39,193	23,959	60,130	63,902	18,471	9,583	5,858	14,702	15,624
Gain on repurchase of bonds...	—	—	—	1,444	—	—	—	—	353	—
	<u>102,185</u>	<u>101,276</u>	<u>116,962</u>	<u>184,223</u>	<u>211,585</u>	<u>24,984</u>	<u>24,762</u>	<u>28,597</u>	<u>45,042</u>	<u>51,732</u>
Operating Expense										
Salaries	904	1,188	1,562	1,841	2,143	221	291	382	450	524
Pension	62	78	133	152	225	15	19	32	37	55
Other employee benefits.....	52	89	177	209	346	13	22	31	51	85
	<u>1,018</u>	<u>1,355</u>	<u>1,822</u>	<u>2,202</u>	<u>2,714</u>	<u>249</u>	<u>332</u>	<u>445</u>	<u>538</u>	<u>664</u>
Interest paid on borrowings....	3,408	4,614	19,697	80,756	99,757	833	1,128	4,816	19,745	24,390
Commissions and fees.....	114	248	210	460	872	28	61	51	112	213
Debt issuance costs	—	—	8,857	8,800	—	—	—	2,166	2,152	—
Foreign exchange losses (gains) —net (1)	—	—	587	1,209	(3,542)	—	—	144	296	(866)
Provision for future foreign exchange losses (1).....	—	—	—	35,000	13,000	—	—	—	8,557	3,178
Provision for loan losses (5)	40,000	41,688	30,313	4,264	46,513	9,780	10,193	7,411	1,043	11,372
Rent.....	141	185	228	250	358	34	45	56	61	88
Depreciation.....	24	31	33	39	47	6	7	8	9	12
Contributions to subsidiaries (3)	—	—	125	1,934	668	—	—	31	473	163
Other expenses.....	220	345	459	647	1,540	54	84	112	158	377
	<u>44,925</u>	<u>48,466</u>	<u>62,331</u>	<u>135,561</u>	<u>161,927</u>	<u>10,934</u>	<u>11,850</u>	<u>15,240</u>	<u>33,144</u>	<u>39,591</u>
Income Before Taxes.....	57,260	52,810	54,631	48,662	49,658	14,000	12,912	13,357	11,898	12,141
Income taxes (1).....	30,567	28,650	29,769	3,600	7,868	7,474	7,005	7,278	880	1,923
Net Income.....	Skr <u>26,693</u>	<u>24,160</u>	<u>24,862</u>	<u>45,062</u>	<u>41,790</u>	<u>\$ 6,526</u>	<u>5,907</u>	<u>6,079</u>	<u>11,018</u>	<u>10,218</u>

The numbered note references are to Notes to Financial Statements.

BUSINESS

Lending Activities

The Bank's borrowers include large and small, publicly and privately owned companies in various industries. Although firms in all segments of the economy may make application, loans have been made principally to industrial companies. Most loans are made to finance specified plant and equipment investments by the borrower, but others (especially in the case of smaller firms) finance product development costs or other corporate projects. Companies whose operations contribute to the Swedish economy are considered for loans without regard to nationality of ownership. A small number of the Bank's loans has been made to companies which are wholly or partly owned by the Kingdom.

The majority of the Bank's loans to Swedish companies have been and are expected to be medium- and long-term loan participations in financings in which commercial banks or other institutions provide other funds with shorter maturities. At 31st December, 1974, more than 95 per cent. of the Bank's loans by number and outstanding amount were in this category.

Most of the Bank's loan transactions involve commitments to the borrower to provide funds at a predetermined rate of interest at a later date or dates. In some cases such commitments may extend over several years. A commitment fee is not usually charged. The interest rate which the Bank will charge on a loan is usually fixed at the time the loan commitment is entered into.

At 31st December, 1974, fixed-interest-rate loans accounted for 98 per cent. of the amount of the Bank's outstanding loans and variable-rate loans for the balance. The Bank's lending rates vary from loan to loan and are generally higher than the interest rate fixed by Sveriges Riksbank, the Central Bank of Sweden ("Riksbank"), for long-term public industrial bond issues. During the latter part of 1974, the Bank raised its minimum lending rate for new commitments to 10 per cent.

Of \$520 million total amount of loans outstanding at 31st December, 1974, 7.6 per cent. was accounted for by loans with original terms of less than five years; 25.6 per cent. by loans with original terms of five to ten years; and 66.8 per cent. by loans with original terms of more than ten years. The Articles of Association of the Bank ("Articles") limit the maximum term of loans which the Bank may make to 20 years.

Most of the Bank's loans (96 per cent. of loan balances at 31st December, 1974) are secured by mortgages or guarantees of third parties. Typically the borrower grants the Bank a security interest in its plant, equipment, inventory or receivables. However, in most cases the Bank's security interest is subordinate to that of other lenders participating in the same financing, such as commercial banks providing short-term credit.

The Bank believes that it applies normal commercial banking standards in evaluating the credit risks and fixing the terms of its loans. Of the 300 to 400 applications for loans received by the Bank in each of the last several years, less than one-third have been approved as meeting the Bank's credit standards.

The Articles limit the total of the Bank's unsecured loans, guarantees and equity investments to one-half of its share capital. At 31st December, 1974 such loans, guarantees and investments (including undisbursed commitments) aggregated \$26.1 million or 11.8 per cent. of the Bank's share capital.

Export Financing

Since 1971 the Bank has also been authorised to engage in export financing and approximately one-third of the aggregate amount of the Bank's outstanding loans and undisbursed commitments is for export transactions. The Bank's activities in this area include loans to Swedish companies for projects abroad in order to develop export markets or for specific export transactions and loans to purchasers of Swedish exports. In addition, the Bank has guaranteed loans made by foreign banks to foreign subsidiaries or affiliates of Swedish companies where exchange restrictions prohibit such subsidiaries or affiliates from obtaining funds outside their country of operation. Such loans and guarantees are made both in Kronor and in various foreign currencies. Often the Bank issues an export loan quotation prior to the actual sale, thereby permitting Swedish companies to include financing arrangements in their bids for export sales. On most of its export credits, the Bank has also required that commercial and/or political guarantees of the credit be obtained by the borrower from the Swedish Export Credits Guarantee Board which customarily guarantees 70 per cent. to 90 per cent. of such credit.

The largest credit granted by the Bank to date is a \$122 million export loan commitment (of which \$21 million had been disbursed at 31st December, 1974) to Teollisuuden Voima OY ("TVO"), a company owned by Finnish industrial and power companies, for purchase of a nuclear power plant from the Swedish company, AB ASEA-ATOM. The net power output of the plant will be 660 MW and the Swedish contract value is about \$170 million. The credit has a final maturity of 20 years and the repayment will be guaranteed by the Republic of Finland or by Finnish banks. These guarantees will be supplemented by a guarantee from the Swedish state-owned Export Credits Guarantee Board covering the political risks for 90 per cent. of the loan amount. To finance this credit the Bank has obtained a special purpose loan of \$122 million from the Swedish National Pension Insurance Fund. The repayment provisions of this special purpose loan are tailored to meet the amortisation schedule on the TVO credit. The terms of this transaction give the Bank a smaller profit margin than it would ordinarily receive on an export financing. The arrangement of this credit enabled AB ASEA-ATOM to compete successfully for the TVO contract with producers of nuclear power equipment from other countries.

In order to finance the sale of a second nuclear power plant to TVO by AB ASEA-ATOM the Bank has agreed to advance—for its own account and as participant in a consortium of Swedish banks—a further amount of approximately \$34 million to TVO, but final terms have not yet been settled. The guarantee will be comparable to the one obtained in the previous credit to the same borrower. No special purpose loan will be obtained to finance this transaction.

Growth of Loan Portfolio

The following table indicates the amount of the Bank's outstanding loans and undisbursed commitments at the end of each of the seven fiscal years since its establishment:

<u>31st December</u>	<u>Loans Outstanding</u>	<u>Undisbursed Commitments</u>
	(000 omitted)	
1968	\$ 7,188	\$123,896
1969	41,564	219,560
1970	130,386	256,720
1971	234,982	275,949
1972	339,595	374,455
1973	404,250	296,667
1974(1)	520,121	343,766 (2)

(1) Of loans outstanding and undisbursed commitments at 31st December, 1974, the equivalent of \$16.3 million and \$2.1 million, respectively, were in currencies other than Swedish Kronor. At that date, guarantees equivalent to \$15.8 million (principally in connection with export financing) were outstanding, of which the equivalent of \$6.8 million were in foreign currencies, and the Bank had granted commitments to issue guarantees equivalent to \$3.8 million, of which the equivalent of \$3.4 million were in foreign currencies.

(2) The estimated timing of disbursements of commitments outstanding at 31st December, 1974 is as follows: 1975, \$180,929,000; 1976, \$80,685,000; 1977, \$58,680,000; 1978, \$19,560,000; and 1979 and after, \$3,912,000.

Distribution of Loans and Undisbursed Commitments by Industry

The following table indicates the distribution by industry of (i) new credit commitments (including guarantees) granted by the Bank in 1974 and (ii) outstanding loans and undisbursed commitments at 31st December, 1974:

	Granted in 1974		Outstanding at 31st December, 1974			
	(000 omitted)		Loans	Undisbursed Commitments (1)	Total Credits	
Engineering (2)	\$160,217	56.6%	\$103,712	\$221,310	\$325,022	36.8%
Pulp and Paper	4,890	1.7	117,804	12,958	130,762	14.8
Electric Power Plants	—	—	56,071	26,895	82,966	9.4
Chemicals	22,968	8.1	86,863	6,507	93,370	10.5
Metals	3,667	1.3	28,525	1,222	29,747	3.4
Construction	12,962	4.6	16,208	36,540	52,748	6.0
Timber	22,550	8.0	32,062	26,685	58,747	6.7
Communications	25,083	8.8	39,490	15,222	54,712	6.2
Textile products	13,839	4.9	11,182	6,653	17,835	2.0
Retail and wholesale... ..	1,687	0.6	8,194	1,834	10,028	1.1
Other	15,231	5.4	20,010	7,529	27,539	3.1
	\$283,094	100.0%	\$520,121	\$363,355	\$883,476	100.0%

(1) Including guarantees.

(2) Including commitments and loans to TVO as described above under "Export Financing".

Distribution of Loans by Size

The following table indicates the distribution, by amount, of (i) new credit commitments (including guarantees) granted by the Bank in 1974 and (ii) total loans outstanding and undisbursed commitments (including guarantees) at 31st December, 1974.:

	Up to 1 mKr. (\$244)	Over 1 mKr. up to 10 mKr. (\$2,444)	Over 10 mKr. up to 25 mKr. (\$6,112)	Over 25 mKr. up to 50 mKr. (\$12,225)	Over 50 mKr.
New loan commitments granted in 1974	1.7%	18.8%	15.6%	31.3%	32.6%
Total at 31st December, 1974:					
Loans Outstanding	1.6%	13.9%	19.2%	14.1%	51.2%
Undisbursed Commitments	0.3%	11.0%	7.4%	14.3%	67.0%
Total Loans and Undisbursed Commitments	1.1%	12.7%	14.4%	14.1%	57.7%

(mKr. = million Swedish Kronor; \$000 omitted)

Major Loans

The following table provides information on the Bank's twenty largest loans outstanding, as of 31st December, 1974:

Borrower	Purpose and Year Granted	Final Maturity	Amount Outstanding	Total Commitment
(000 omitted)				
Skogsägarnas Industri AB	sulphate paper mill	1987	\$55,012	\$61,125
Skandinaviska Raffinaderi AB Scanraff	oil refinery	1987	36,186	36,675
MKG Mellansvensk Kraftgrupp AB...	nuclear power plant	1992	29,340	39,120
Teollisuuden Voima OY (TVO)	nuclear power plant (export)...	1972 1993	21,431	122,249

<u>Borrower</u>	<u>Purpose and Year Granted</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>	<u>Total Commitment</u>
			(000 omitted)	
SUPRA AB.....	consolidation of fertiliser production facilities.....1970	1982	\$19,483	\$20,782
Sydsvenska Kraft AB.....	nuclear power plant.....1969	1983	17,115	30,562
Angfartygs AB Tirfing.....	obo carrier ship1970	1983	13,509	15,892
Uddeholms AB.....	papermill for production of kraftliner.....1968	1983	13,350	15,892
Uddeholms AB.....	as above and for specialty steel mill1971	1983	13,203	14,670
Obbola Linerboard AB.....	papermill for production of kraftliner.....1973	1986	12,225	18,337
Skogsägarnas Industri AB	sawmill1972	1988	12,225	12,225
Trelleborgs Gummifabriks AB	industrial rubber production equipment1974	1984	11,614	12,225
AB Statens Skogsindustrier.....	sawmill1970	1982	11,491	15,892
Norrlands Skogsägares Cellulosa AB	conversion (from sulphite to sulphate) and enlargement of pulp mill.....1972	1985	9,780	14,670
Bank Handlowy w Warszawie (1).....	construction of slaughterhouse (export)1973	1984	9,142	31,174
Rederi AB Transatlantic.....	ship1968	1985	8,254	11,247
Bank Handlowy w Warszawie (1).....	construction of office building (export)1973	1982	6,320	9,291
AB Statens Skogsindustrier	fibre board plant.....1974	1980	6,112	12,225
Kockums Mekaniska Verkstads AB...	expansion of ship production facility1974	1985	6,112	6,112
Eskilstuna kommun.....	purchase of industrial real estate1974	1994	6,112	6,112

(1) Under Polish foreign trade regulations, the Bank's credit is extended to Bank Handlowy w Warszawie, the Polish state-owned foreign trade bank, for re-lending to the Polish purchaser.

Loan Losses

The following table shows the loans charged against the Bank's loan loss reserve since the Bank's inception:

<u>Year</u>	<u>Number of Defaulting Borrowers</u>	<u>Amount Charged (000 omitted)</u>	<u>Amount as percentage of outstanding loans at year end</u>
1967-68	—	—	—
1969	1	\$ 49	0.12
1970	—	—	—
1971	1	3,102	1.32
1972	3	76	0.02
1973	8	1,461	0.36
1974	5	1,694	0.33

At 31st December, 1974 the Bank had accumulated a reserve of \$48.9 million as a general provision for loan losses. See note 1 of Notes to Financial Statements for a discussion of the accounting policy used in the determination of this reserve; see also note 5 of Notes to Financial Statements.

Sources of Funds

The Bank has supported its lending activities from equity investments by the Kingdom, additions to reserves and retained earnings, loan repayments, borrowings in Sweden (principally from the National Pension Insurance Fund) and borrowings outside Sweden.

The Bank commenced business in 1967 with a \$122 million equity investment by the Kingdom, \$110 million of which was allocated to share capital and \$12 million of which was allocated to a statutory reserve which is available only to cover losses or for distribution on dissolution. Subsequent investments by the Kingdom and transfers to the statutory reserve have raised the Bank's share capital and statutory reserve to \$220 million and \$30.6 million, respectively, as of 31st December, 1974. Earnings of \$20.3 million had been retained through 31st December, 1974 and at that date the Bank's total equity capital amounted to \$270.9 million.

The Articles authorise the Bank to borrow funds and issue guarantees aggregating not more than five times its equity capital, including its share capital, statutory reserve and retained earnings but excluding all loss reserves. This limitation on borrowings does not apply to subordinated borrowings which, up to an amount equal to the Bank's share capital, may in general be treated as share capital for the purpose of the Bank's borrowing limitation. To date the Bank has not made any subordinated borrowings.

The following table indicates the Bank's sources of funds for each of its fiscal years since commencement of operations:

Fiscal year ended 31st December	Government Investment	Borrowings (net of repayments)				Loan Repayments Received	Additions to Reserves	Net Income	Total
		Long-Term (1)		Other	Sub Total				
		Domestic	Foreign						
1968	\$171,149	\$ —	\$ —	\$ 587	\$ 587	\$ —	\$ 7,107	\$ —	\$178,843
1969	73,350	—	—	3,178	3,178	180	7,562	3,733	88,003
1970	—	—	—	5,044	5,044	1,008	9,780	6,526	27,558
1971	—	—	—	20,879	20,879	23,929	7,335	5,907	58,050
1972	—	36,675	71,600	3,748	112,023	21,247	7,335	6,079	146,684
1973	—	124,694	53,549	(7,391)	170,852	47,303	8,557	11,018	237,730
1974	—	21,760	(1,159)	(3,453)	17,148	75,081(2)	12,958	10,218	115,405
	\$244,499	\$183,129	\$123,990	\$22,592	\$329,711	\$168,748	\$60,634	\$43,481	\$847,073

(1) As used in this table Long-Term Borrowings are borrowings with an original term of 10 years or more.

(2) Includes prepayment of a single loan of \$21,612,000.

The following table indicates total scheduled payments of principal and interest on the Bank's long-term borrowings (i.e., borrowings with an original term of 10 years or more) outstanding at 31st December, 1974:

Due in	Long-Term Borrowings Payable In				
	Swedish Kronor	German marks(1)	U.S. \$ (000 omitted)	Swiss francs(1)	Total
1975	\$ 16,107	\$ 5,717	\$ 3,173	\$ 1,284	\$ 26,281
1976	15,909	5,717	3,096	1,284	26,006
1977	15,711	5,717	3,020	1,284	25,732
1978	19,620	9,875	2,944	1,284	33,723
1979	23,076	13,753	2,868	1,284	40,981
1980	26,984	13,181	3,291	1,284	44,740
1981	25,823	12,609	3,677	1,284	43,393
1982	24,661	12,037	4,024	1,284	42,006
1983 and thereafter	105,667	56,061	22,027	24,891	208,646
Total	\$273,558	\$134,667	\$48,120	\$35,163	\$491,508

(1) Amounts translated at rates prevailing at 31st December, 1974: DM 2.405 = U.S. \$ 1; Sfr. 2.531 = U.S. \$ 1.

At 31st December, 1974 the Bank had accumulated a reserve for unrealised foreign exchange losses totalling \$11.7 million, representing the difference between the exchange rates prevailing at the dates of the

Bank's long-term German mark and Swiss franc borrowings and those prevailing at 31st December, 1974. It is the current policy of the Bank to evaluate its foreign currency position annually and, if necessary, increase the amount of this reserve.

Although the Swedish medium- and long-term capital market is expected to be the principal and preferred source of funds, the Bank expects to obtain medium- and long-term foreign borrowings from time to time. The proceeds of the Bank's foreign borrowings are converted almost entirely to Kronor for lending in that currency.

Liquidity

The Bank's current assets consist of bank deposits, short-term investments and marketable securities, which totalled \$137.5 million at 31st December, 1974 and included \$85.5 million in National Debt Office notes; \$47.1 million in deposits, primarily in Swedish banks but also in foreign banks; and \$4.9 million in short-term notes of Swedish financial institutions. The ratio of liquid assets to total assets at that date was higher than would have otherwise been the case because of the National Debt Office notes held by the Bank. Such notes represented the difference between the Bank's borrowing from the National Pension Insurance Fund which was made concurrently with the issuance of the Bank's commitment for the TVO project in 1973, and the disbursements for such project.

In the interest of providing reserve liquidity to the Bank relative to its loan commitments and debt service, legislation was enacted in 1971 authorising the Riksbank to grant to the Bank an overdraft facility of \$48.9 million. To date the Bank has not required this facility and no terms have been negotiated with the Riksbank for its use.

Subsidiaries and Affiliates

The Bank's subsidiaries and affiliates include: AB Strukturgaranti, wholly-owned, which was formed in 1972 to evaluate applications for and issue guarantees of the Kingdom; Svensk Företags Garanti AB, 50 per cent. owned by the Bank, which issues loan guarantees in small amounts; SIBTEC AB, wholly-owned, which was originally concerned with development and marketing of an industrial filter system but recently has also been active as technical consultant to the Bank and some of its borrowers; and AB Svensk Petrokemisk Utveckling, 20 per cent. owned by the Bank, which is investigating the prospects of further developing the Swedish petrochemical industry. It is anticipated that the functions of AB Strukturgaranti will be transferred to a government agency in July, 1975. See note 3 of Notes to Financial Statements.

The Bank at present has three additional wholly-owned subsidiaries which were acquired as a result of its lending activities. During 1974 the Bank acquired Sandviken Heat Production AB and Liquid Processing AB, each of which was operating at a loss, had defaulted on its loan from the Bank and is continuing to operate at a loss. Investments in and advances to these companies at 31st December, 1974 aggregated \$208,000. In March, 1975 the Bank acquired Sweteco (Textile Products) AB, a Swedish textile group which operated at a loss in 1974, in order to protect the Bank's loans and to continue the operations of the group. The group continues to operate at a loss. At present the Bank's investments in and advances to the group aggregate \$6.5 million and in addition the Bank has guaranteed \$3.7 million of borrowings by the group from others.

The Bank is also a joint venture partner in a company constructing an office building in central Stockholm in which it expects to occupy office space in 1975. See "Property".

Property

The Bank's offices are presently located in 8,794 sq. ft. of leased space in central Stockholm. The lease for this space calls for annual rental payments of \$102,688 and will terminate in September, 1975. A company, Fastighets AB SIBOS, 50 per cent. owned by the Bank and 50 per cent. by Byggnadsfirman Ohlsson & Skarne AB, a construction and development firm, currently has under construction a 10-storey office building and shopping mall in central Stockholm, which is estimated to cost approximately \$12 million. Financing during construction is being provided by the Bank and permanent financing with a conventional real estate lender is planned following completion, although no definite arrangements for such financing presently exist. In the autumn of 1975 the Bank expects to relocate its offices to leased facilities occupying two floors in this new building. The terms of this lease have not yet been determined.

Employees

The Bank has 31 employees of whom 22 are managerial or professional. In certain credit evaluations and loan transactions the Bank engages special consultants and spent \$171,638 for this purpose in 1974.

Legal Status of the Bank

The Proposition on the basis of which Parliament approved the establishment of and appropriated funds for the Bank does not have the force of law, but broadly states the political and economic policies governing the Bank and its purposes. Parliamentary approval would be required in any event for any substantial deviation from the terms of the Proposition.

The Bank was incorporated in 1967 under the Swedish Stock Companies Act of 1944. It has a legal existence separate from the Kingdom and is not entitled to claim sovereign immunity.

The Kingdom exercises its rights as owner of the Bank's stock through its Department of Industry. The Department's exercise of control over the Bank has been essentially limited to exercise of its prerogatives as shareholder, including annual election of the Bank's Board of Directors (see "Management").

The Bank is formally a credit company subject to the Swedish Credit Companies Act of 1963 under which amendments to the Articles must be approved by the Government. The Articles have been amended only once, relating to the Bank's engaging in export financing, and this amendment was approved by Parliament as well as the Government. The Bank has been exempted from examination, regulation and supervision by the Swedish Bank Inspection Board which is generally provided by such Act.

In common with other Swedish companies, the Bank must obtain the Riksbank's approval for long-term borrowings in the Swedish domestic capital market (other than in the limited Swedish private long-term market) under general domestic capital market regulations, and for external borrowings under exchange control regulations.

MANAGEMENT

The Articles provide that the Board of Directors shall consist of not less than seven nor more than nine Directors and an equal number of Deputy Directors, and that the Board shall appoint one of its members Managing Director. All of the foregoing positions (other than Managing Director) are filled by shareholder election. The present Directors, Deputy Directors and executive officers of the Bank are as follows:

Directors

	<u>Principal Occupation</u>
Arne S. Lundberg ¹	Managing Director of Luossavaara-Kiirunavaara AB
Harry Hjalmarson ²	Retired, former Managing Director of The Co-operative Union and Wholesale Society
Arne Callans	Managing Director of the Bank
Hans Cavalli-Björkman	Managing Director of Skandinaviska Endskilda Banken, Malmö
Olle Göransson	Member of Parliament
Tony Hagström	Under Secretary of the Ministry of Industry
Sigurd Ljungcrantz	Director of various companies, former Managing Director of Corona-verken AB
Sven Wehlin	Vice Chairman of the Swedish Metal Workers' Union
Arne H. Nilstein	Managing Director of the Swedish Industrial Salaried Employees Association

Deputy Directors

Erik Grafström	Chairman of the State Power Board
Harald Håkansson	Managing Director of the Federation of Swedish Farmers
Birger Ekström	Managing Director of Uppåkra Mekaniska Verkstads AB
Sture Ulvskog	Managing Director of Östgötabanken
Sven Sundin	Farmer, former Member of Parliament
Bengt Dennis	Under Secretary of the Ministry of Commerce
Nils Landqvist	President of Korsnäs-Marma AB
Gunnar Nilsson	Chairman of the Swedish Confederation of Trade Unions
Lennart Lundgren	General Secretary of Swedish Bank Employees Union

Executive Officers

	<u>Position</u>
Arne Callans	Managing Director
Dag Persson	Chief Legal Officer and Deputy Managing Director
Kai Holmbeck	Senior Lending Officer
Krister Wallin	Chief Financial Officer
Lars-Olof Gustavsson	Senior Lending Officer
Robert Helleday	Senior Lending Officer

¹ Chairman of Board of Directors.

² Deputy Chairman of Board of Directors.

GUARANTEE OF THE KINGDOM OF SWEDEN

In 1967, pursuant to Parliamentary authority, the National Debt Office of the Kingdom of Sweden issued a letter on behalf of the Kingdom undertaking to guarantee the obligations of the Bank up to and including 450 million Kronor (\$110 million). In 1968, the guarantee was increased to 630 million Kronor (\$154 million) and in June, 1969 the guarantee was increased to 900 million Kronor (\$220 million). On 19th June, 1975 the amount of the guarantee was increased to 2,000 million Kronor (\$489 million) pursuant to a proposal approved by the Parliament on 13th May, 1975. The Bank's total obligations presently are in excess of 2,000 million Kronor (\$489 million).

In the opinion of G. Sandströms Advokatbyrå, special Swedish counsel for the Bank, the Kingdom's guarantee applies to the Bank's obligations evidenced by the Bonds and is irrevocable with respect to those obligations. The Kingdom's guarantee is a guarantee of collection and not a guarantee of payment and accordingly would be enforceable against the Kingdom only after all means of legal recourse against the Bank have been exhausted without satisfaction in full of a guaranteed obligation. Were the Bank to become insolvent and be liquidated, the claims of holders of the Bonds for payment under the guarantee of the Kingdom would be aggregated with claims of other creditors of the Bank entitled to the benefit of the guarantee. If the aggregate amount of such claims exceeded the amount of the guarantee, all creditors would be entitled to receive a proportionate distribution of the amount guaranteed.

KINGDOM OF SWEDEN

The Kingdom of Sweden covers an area of approximately 174,000 square miles (which is approximately twice the size of the United Kingdom) and its population at the end of 1974 was estimated at 8,177,000. The largest cities are Stockholm (1,353,000 inhabitants), Göteborg (688,000 inhabitants) and Malmö (453,000 inhabitants). Approximately half of Sweden is covered by forest. The average population density per square mile at the end of 1974 was 47.

General Political Information

Sweden's constitution provides for a parliamentary government system and a King who performs only ceremonial duties and functions as the official representative of Sweden. Executive authority rests with the Cabinet of Ministers headed by the Prime Minister. Legislative power rests with the Parliament, which has consisted of a single house since 1971. There are 350 members of Parliament who are elected every three years by direct ballot, 310 from local constituencies and 40 on an "at large" basis. There are five political parties which have been represented since the general election in September 1973 as follows:

	<u>Number of seats</u>
Social-Democratic	156
Centre	90
Conservative	51
Liberal	34
Communist	19

Since 1932 the Social-Democratic Party has formed the Cabinet either alone or in coalition with other parties. The present Prime Minister of the Social-Democratic government is Mr. Olof Palme who became Prime Minister in 1969. Prior to Mr. Palme, Mr. Tage Erlander was Prime Minister since 1946.

International organisations of which Sweden is a member include the United Nations, International Monetary Fund (IMF), International Bank for Reconstruction and Development (World Bank), General Agreement on Tariffs and Trade (GATT), Organisation for Economic Co-operation and Development (OECD) and European Free Trade Association (EFTA). Sweden is not a member of any military alliance and has a policy of neutrality. Sweden has not engaged in a war since 1815.

Industry

Sweden has a diversified but highly industrialised economy. Swedish industry is generally concentrated in the southern half of the country, principally around the major cities of Stockholm, Göteborg and Malmö, but a significant amount of mining and energy production as well as certain timber activities are located in the northern half.

Manufacturing is the largest component of Sweden's industrial sector, accounting for the major portion of its share of gross domestic product and employing the majority of its labour force. The principal characteristic of Sweden's manufacturing industry is its reliance on technology, and most of its products are based on Swedish inventions or developments. Because of the small size of the domestic market, Sweden's manufactured products are largely exported. Among the more important Swedish manufacturing industries are automobiles, electronic equipment, machine tools and shipbuilding. Sweden is the third largest shipbuilding nation in the world.

Mining in Sweden is centred around the large iron ore deposits in the north, and Sweden accounts for approximately 6 per cent. of world iron ore production and 13 per cent. of world exports. Other important minerals found in Sweden are zinc, copper, lead and manganese. Because of Sweden's large iron ore deposits, the country also has a highly developed iron and steel industry which produces a wide variety of products for domestic use and export sale.

Although Sweden has less than 1 per cent. of the world's forests, certain climatic conditions and other factors have made its forest products particularly desirable in the domestic and export markets. Forest products account for about one-fourth of Sweden's total exports and its exported forest products constitute approximately 3 per cent. of world volume and 13 per cent. of world export value of such products. Sweden's principal forest products include pulp, paper, wallboard and lumber. Sweden is the fourth largest producer of wood pulp and the second largest producer of wallboard in the world.

While still relatively small, Sweden's chemical industry has expanded rapidly in the post-war period and now employs nearly 8 per cent. of the labour force and accounts for almost 10 per cent. of industrial output. Sweden's chemical production consists primarily of organic chemicals, plastics, pharmaceuticals and petrochemicals and a substantial portion is exported.

Over 80 per cent. of all passenger traffic and approximately 65 per cent. of all goods in Sweden are transported by road. Railroads, while extensive, have been declining in importance in recent years with respect to passenger transportation but continue to carry a large share of Sweden's raw and manufactured products. Shipping is also important in Sweden due to its large coastline, and Swedish ships are also active in world sea trade. Within Sweden aviation is not a significant means of transportation.

Corporate Ownership

Most Swedish industry is privately owned. Kingdom ownership is primarily limited to a few special sectors of the economy such as iron ore, mining, public utilities and transportation where Kingdom-owned enterprises account for over half of the produced goods and services. In most cases, Kingdom-owned companies have not been established for commercial or control purposes, but rather to create employment and encourage regional development. The Kingdom also has important ownership interests in certain Swedish financial institutions.

Agriculture

Total arable land at the end of 1973 was about seven million acres, which is 7 per cent. of Sweden's total land area. During the last 10 years the agricultural labour force has been reduced by an average yearly rate of 7 per cent. but total agricultural production has changed very little.

The Swedish farmers' producer cooperatives collaborate nationwide and about 80 per cent. of the sales of agricultural products are handled by their economic associations. Through these associations the farmers own a significant part of the Swedish food industry, thus exercising an important influence on the market.

Labour Force

As in most industrialised countries, the trend in occupation has been away from agriculture with an increasing percentage of workers engaged in manufacturing and services. Immigration into Sweden and the entry of married women into the labour force has satisfied demand for workers while, generally, the proportion of the Swedish population of the ages which contribute to the labour force has declined. Women account for approximately 40 per cent. of the labour force and foreigners approximately 5 per cent.

The Swedish labour market is characterised by strongly centralised organisations, both on the employer and the employee side. The Swedish Confederation of Trade Unions consists of 25 trade unions and more than 90 per cent. of the blue-collar workers in Sweden belong to trade unions which are members of the confederation. About 70 per cent. of the white-collar workers are members of the 23 unions constituting the Central Organisation of Salaried Employees. Union labour negotiations are conducted with employer organisations in which the Swedish Employers' Confederation is dominant with over 26,000 member firms employing some 1,250,000 people.

Gross Domestic Product

The value of Sweden's gross domestic product at constant 1968 market prices for each of the years 1969 through 1973 is set forth in the following table:

	1969	1970	1971	1972	1973	1973 translated to S
	(in millions)					
Gross domestic product at constant 1968 market prices	Skr148,560	Skr155,283	Skr156,096	Skr160,232	Skr165,449	\$40,452
Annual percentage growth	5.1	4.5	0.5	2.6	3.3	—
GDP COMPONENTS FROM THE PRODUCTION SIDE						
Agriculture, hunting, forestry, fishing	5,839	6,142	6,698	6,630	6,583	1,609
Mining and quarrying	1,199	1,191	1,285	1,299	1,408	344
Manufacturing	37,843	40,146	40,507	41,467	44,235	10,815
Construction	14,210	14,395	14,250	14,965	14,715	3,598
Electricity, gas and water	3,158	3,283	3,531	3,822	4,045	989
Transport and communication	9,148	9,317	9,808	10,173	10,477	2,562
Wholesale and retail trade, restaurants and hotels	15,610	15,931	15,352	15,872	16,034	3,920
Financing, insurance, real estate and business services	20,202	20,691	21,575	21,934	22,360	5,467
Community, social and personal services	5,694	5,513	5,457	5,666	5,946	1,454
Products of government services	21,443	23,182	24,056	25,038	25,660	6,274
GDP COMPONENTS FROM THE USE SIDE						
Private consumption	82,573	84,171	83,562	85,679	87,312	21,348
Public consumption	29,889	32,344	33,493	34,239	35,088	8,579
Total consumption	112,462	116,515	117,055	119,918	122,400	29,927
Private domestic gross capital formation, excl. permanent residential housing	13,177	13,559	13,638	14,715	15,595	3,813
Public domestic gross capital formation, excl. permanent residential housing	12,054	13,293	12,773	13,687	12,859	3,144
Permanent residential housing, gross capital formation	9,637	9,282	9,329	9,655	9,503	2,323
Domestic gross capital formation total	34,868	36,134	35,740	38,057	37,957	9,280
Change in stocks	+1,875	+4,134	+1,173	-28	-627	-153

SOURCE: National Institute of Economic Research, Stockholm.

The average annual rate of increase in Sweden's gross domestic product at constant 1968 market prices during the above five years has been 3.2 per cent. and the estimated growth for 1974 is 4.2 per cent. The forecast for 1975 in the Government budget is 2.5 per cent.

According to published OECD data, the gross domestic product per capita in Sweden in 1973 was \$5,860 and was exceeded in that year only by that of the United States of America (\$6,150).

The gross domestic product implicit price level index, the import price index, the volume index of production in mining and manufacturing and the consumer price index for the years 1969 through 1973 are given below. The base year for these indices is 1968 except for the consumer price index which utilises 1949 as the base year.

	1969	1970	1971	1972	1973
GDP implicit price level	103.2	109.8	117.4	124.2	132.5
Import prices	101.8	110.2	116.3	118.3	133.1
Volume of production in mining and manufacturing.....	107.5	114.1	115.5	118.3	126.8
Consumer prices	221	236	254	269	287

SOURCE: National Institute of Economic Research, Stockholm.

The consumer price index for 1974, as reported by the National Institute of Economic Research, Stockholm, was 316 (1949 base year).

Social Welfare

Sweden has developed a comprehensive social welfare programme which, to a large extent, is financed by tax revenues. Most social benefits are available to everyone without regard to personal income. Every citizen is covered by the compulsory health insurance programme which pays substantially all of the expenses of doctors, hospitalisation and medicine and a major portion of dental expenses. The national old-age pension, starting at age 67, is paid to all Swedish citizens and to foreigners resident in Sweden for a certain period. In addition, an increasing number of persons are becoming entitled to the national supplementary pension which is funded by premiums paid by employers. Sweden also has unemployment insurance, rent allowances for low income persons and a system of laws prescribing a mandatory four weeks' vacation and a 40-hour work week.

Foreign Trade

The Swedish economy is highly dependent on foreign trade as the Swedish home market is relatively small. Sweden's large natural reserves, such as timber and iron ore, and its industrial production are the basic materials for exported products. Western Europe takes almost three-quarters of Sweden's total exports, as illustrated by the following table:

REGIONAL DISTRIBUTION OF FOREIGN TRADE IN 1973

	Exports (f.o.b.)	Imports (c.i.f.)
EFTA	22%	18%
Norway	9%	7%
Finland	7%	6%
EEC	50%	55%
United Kingdom	15%	12%
Germany	10%	20%
Denmark	10%	8%
USA	6%	7%
Developing countries	10%	10%
Other	12%	10%
	100%	100%

SOURCE: Sveriges Riksbank.

Sweden participated in the establishment of the Organisation for European Economic Cooperation (now the OECD) and the convention establishing the European Free Trade Association (EFTA) was signed in Stockholm in November 1959. Original members of EFTA were Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. Subsequently Denmark and the United Kingdom withdrew from EFTA and joined the European Economic Community (EEC) and Iceland has become an EFTA member and Finland an associated member. Virtually all tariffs and restrictive quotas have been abolished on trade in industrial goods among EFTA members.

On 22nd July, 1972 Sweden entered into agreements with the EEC and the European Coal and Steel Community ("ECSC"). The essential feature of the agreement with the EEC is that a free trade area is gradually created for industrial goods (agricultural products are excluded) through the progressive diminution of the existing tariffs between Sweden and the EEC, in step with the tariff reductions between the EEC and its new members. An initial tariff reduction of 20 per cent. took place on 1st April, 1973 and was followed by two other equal reductions on 1st January, 1974 and 1st January, 1975. The two remaining 20 per cent. reductions will take place on 1st January, 1976 and 1st July, 1977. In case of certain so-called "sensitive" products, however, some exceptions have been made extending the transitional period to 1st January, 1980 for special steels, certain metals and rayon wool and to 1st January, 1984 for paper and paper board (except fibre building board), paper products and printed matter. During the extended transitional period reductions in customs duties may be restricted to certain annual quantities. Customs duties on paper products are being gradually and temporarily reintroduced for exports from Sweden to the United Kingdom and Denmark until superseded by overall EEC reductions. These countries have, however, undertaken to set annual duty-free quotas for their imports from Sweden for the period 1974-1983.

The provisions on tariff abolition and other matters in the Swedish agreement with the ECSC coincide with those of the EEC agreement. Under the agreements with the EEC and the ECSC Sweden maintains her autonomy to make trade agreements independently and to continue her long standing low-tariff policy.

The EEC and ECSC agreements give Sweden potential access to a duty-free market for industrial goods with 300 million inhabitants, covering practically the whole of Western Europe. Swedish exports to EEC members will be relieved of tariffs amounting to Skr 500 million and goods imported from the European Communities will be spared Skr 600 million in tariffs (both based on 1973 trade figures).

The following table gives the percentage of Sweden's foreign trade in various categories of goods in 1973:

<u>Exports (f.o.b.)</u>		<u>Imports (c.i.f.)</u>	
Machinery, instruments	25%	Machinery, instruments	25%
Transport equipment	16	Metal, metal goods	12
Metal, metal goods	13	Fuel	11
Paper, paper goods	9	Food	9
Pulp	8	Textile goods, shoes	10
Timber	8	Chemicals	9
Other	21	Transport equipment	10
	<u>100%</u>	Other	14
			<u>100%</u>

SOURCE: Sveriges Riksbank.

Balance of Payments

The value of Swedish exports and imports, the balance of trade and other Balance of Payments data for the calendar years 1969 through 1974 are shown in the following table:

	1969	1970	1971	1972	1973	1974	1974 translated to S
	(in millions)						
CURRENT TRANSACTIONS							
Exports f.o.b.	Skr29,459	Skr35,150	Skr38,224	Skr41,749	Skr53,153	Skr70,391	\$17,211
Imports c.i.f.	-30,571	-36,251	-36,192	-38,618	-46,336	-72,850	-17,812
Balance of trade	-1,112	-1,101	2,032	3,131	6,817	-2,459	-601
Adjustment of trade returns....	151	136	16	49	-111	-95	-23
Net shipping	2,016	2,114	2,325	2,432	2,989	3,813	932
Travel	-1,229	-1,748	-1,927	-2,400	-2,275	-2,254	-551
Other services	-104	13	-444	-633	-778	-1,494	-365
Transfers (net)	-741	-781	-908	-1,207	-1,356	-1,907	-466
Balance on current account....	-1,019	-1,367	1,094	1,372	5,286	-4,396	-1,075
CAPITAL TRANSACTIONS							
Government capital transactions	-240	-214	-180	47	-201	-465	-114
Security transactions	-127	246	378	830	445	97	24
Private long-term loans.....							
Abroad	579	1,002	944	870	428	1,536	376
In Sweden	-60	-107	-42	-4	-35		
Direct investment							
Abroad	-1,225	-1,103	-899	-1,251	-1,227	-1,557	-381
In Sweden	799	557	423	325	303		
Other	150	771	-54	621	702	1,817	444
Balance of capital	-124	1,152	570	1,438	415	1,428	349
SDR ALLOCATION	—	196	180	178	—	—	—
ERRORS AND OMISSIONS	-543	637	443	39	-62	1,178	288
MONETARY INSTITUTIONS							
Foreign exchange reserve.....	-1,853	394	1,208	2,251	3,884	-3,292	-805
Authorised exchange banks:							
time position	167	224	193	678	1,755	1,502	367
Total	-1,686	618	1,401	2,929	5,639	-1,790	-438

SOURCE: Sveriges Riksbank.

Foreign Exchange Reserves

The following table shows the net foreign exchange holdings of the Sveriges Riksbank and the sight holdings of the authorised exchange banks as well as Sweden's position in respect of gold, SDRs and the IMF at the end of each year from 1970 through 1974.

	31st December					1974 translated to \$
	1970	1971	1972	1973	1974	
	(in millions)					
Sveriges Riksbank						
Gold.....	Skr 1,035	Skr 1,046	Skr 1,047	Skr 1,115	Skr 1,115	\$ 273
Special Drawing Rights.....	196	376	554	589	589	144
IMF position.....	654	432	465	484	490	120
Foreign exchange.....	1,739	3,211	5,254	9,057	5,527	1,351
Total.....	<u>3,624</u>	<u>5,065</u>	<u>7,320</u>	<u>11,245</u>	<u>7,721</u>	<u>1,888</u>
Authorised exchange banks						
Sight balance.....	648	415	411	370	602	147
Total.....	<u>4,272</u>	<u>5,480</u>	<u>7,731</u>	<u>11,615</u>	<u>8,323</u>	<u>2,035</u>

SOURCE: Sveriges Riksbank.

At the end of 1974 the Sveriges Riksbank agreed with the Bank for International Settlements ("BIS") in Basle on a stand-by credit for \$300 million. Under this agreement the BIS will during 1975 upon request immediately place foreign currency up to this amount at the disposal of the Sveriges Riksbank. The agreement provides for the possibility of prolongation after the end of 1975, in which case a credit drawn under the facility may also be prolonged.

Energy

Sweden is not an oil-producing country and extensive exploration in the last few years has been largely unsuccessful. The Swedish balance of trade has therefore taken the full burden of the increased prices of oil and oil products which took effect in the latter part of 1973.

The following table shows the import and export values of oil and fuel for 1973 and preliminary figures for 1974 as well as projected figures for 1975 and 1976 based on oil and fuel prices as of December, 1974:

	1973	1974	1975	1976
	(in millions)			
Imports:				
Crude oil.....	Skr 1,260	Skr 3,680	Skr 6,340	Skr 6,270
Fuel oil.....	3,290	8,020	5,910	5,950
	<u>4,550</u>	<u>11,700</u>	<u>12,250</u>	<u>12,220</u>
Exports:				
Fuel oil.....	197	540	620	640
Impact on balance of trade.....	<u>4,353</u>	<u>11,160</u>	<u>11,630</u>	<u>11,580</u>

SOURCE: National Institute of Economic Research, Stockholm.

State Budget and National Debt

The sources and uses of funds of the Central Government of Sweden for the calendar years 1970 through 1973 are summarised in the following table.

	1970	1971	1972	1973	1973 translated to \$
	(in millions)				
REVENUES					
Direct and indirect taxes	Skr35,979	Skr40,799	Skr43,059	Skr46,910	\$11,469
Other	3,294	3,903	4,447	4,900	1,198
	<u>39,273</u>	<u>44,702</u>	<u>47,506</u>	<u>51,810</u>	<u>12,667</u>
EXPENDITURES					
Transfers	23,395	27,096	31,167	34,470	8,428
Consumption	13,257	15,178	15,799	17,290	4,227
Gross fixed investments	1,865	1,926	2,311	2,470	604
Residual	134	-830	468	250	61
	<u>38,701</u>	<u>43,370</u>	<u>49,745</u>	<u>54,480</u>	<u>13,320</u>
LENDING ETC	3,625	4,535	4,348	3,500	856
EXTRA BUDGETARY TRANS- ACTIONS (expendi- ture in	-152	567	242	20	5

SOURCE: National Institute of Economic Research, Stockholm.

The following table sets forth the National Debt of the Central Government of Sweden:

	1970	1971	1972	1973	1973 translated to \$
	(in millions)				
NATIONAL DEBT (at year- end) (1)					
Funded	Skr24,812	Skr27,399	Skr29,948	Skr34,218	\$8,366
Floating (2)	11,343	11,387	15,188	17,069	4,173
	<u>36,155</u>	<u>38,786</u>	<u>45,136</u>	<u>51,287</u>	<u>12,539</u>

(1) All payable in Swedish Kronor.

(2) Original maturity of one year or less.

SOURCE: National Institute of Economic Research, Stockholm.

The Kingdom of Sweden has guaranteed the principal of and interest on obligations of others (both internal and external) aggregating approximately Skr 17,758 million (\$4,342 million) at 31st December, 1974.

All payments on its public debts, internal or external, have been made when due by the Kingdom of Sweden since the establishment of the present state in 1809.

ACCOUNTANTS' REPORT

The Board of Directors
Sveriges Investeringsbank Aktiebolag:

We have examined the balance sheet of Sveriges Investeringsbank Aktiebolag as of 31st December, 1974, and the related statement of income for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Sveriges Investeringsbank Aktiebolag at 31st December, 1974, and the results of its operations for the five years then ended, in conformity with generally accepted accounting principles applicable in Sweden, applied on a consistent basis.

The accompanying financial statements expressed in U.S. dollars have been translated into dollars solely for the convenience of the reader. We have reviewed the translation, and, in our opinion, the financial statements expressed in Kronor have been translated into dollars on the basis set forth in note 2 of Notes to Financial Statements.

Stockholm, Sweden

24th February, 1975 (except as to
note 9 of Notes to Financial
Statements which is as of 11th June,
1975)

TORRE HENCKEL
Authorised Public Accountant

BRUNO SVENSSON
Authorised Public Accountant

SVERIGES INVESTERINGSBANK AKTIEBOLAG

BALANCE SHEET

31st December, 1974

ASSETS

	In thousands of Swedish Kronor	Translation into thousands of U.S. dollars
Cash and due from banks	Skr 1,968	\$ 481
Interest bearing deposits with banks and investments	560,625	137,072
Loans	2,116,985	517,600
Investments in subsidiaries and affiliates (3)	3,890	951
Advances to subsidiaries and affiliates (3)	10,308	2,521
Office equipment, net	101	25
Accrued interest and commissions	47,154	11,529
Own bonds repurchased	10,432	2,550
Other assets	229	56
Total assets	Skr 2,751,692	\$672,785

LIABILITIES, RESERVES AND EQUITY CAPITAL

Borrowed funds (4)		
Short term	Skr 60,924	\$ 14,896
Medium term	29,078	7,109
Long term	1,256,120	307,120
	1,346,122	329,125
Accrued expenses		
Interest and other	45,000	11,002
Income taxes	1,590	389
Pension	244	59
	46,834	11,450
Advances from subsidiary and affiliate (3)	2,900	709
Total liabilities	1,395,856	341,284
Reserves for losses		
Loans (5)	200,000	48,900
Foreign exchange	48,000	11,736
Total reserves	248,000	60,636
Equity capital (6)		
Share capital	900,000	220,049
Statutory reserve	125,000	30,562
Retained earnings	82,836	20,254
Total equity capital	1,107,836	270,865
Commitments and contingent liabilities (7)		
Total liabilities, reserves and equity capital	Skr 2,751,692	\$672,785

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

(1) Statement of Accounting Policies

In order to facilitate an understanding of the data included in the financial statements, summarised below are the more significant accounting policies of Sveriges Inlåningsbank Aktiebolag (the "Bank"). These policies are in conformity with principles and procedures generally followed in Sweden.

Basis of Presentation

The Bank does not consolidate its subsidiaries, all of which are wholly-owned. Investments in subsidiaries, an affiliate, and corporate joint ventures are carried at cost. The Bank assumes the losses of its non-profitable subsidiaries through periodic contributions which are charged to income. In the aggregate, the subsidiaries, affiliate, and joint ventures are not significant to the result of operations and financial position of the Bank.

Foreign Currency Translation

The Bank maintains foreign currency assets and liabilities at historical rates, except for cash on hand and in banks, its own bonds repurchased and accrued interest receivable and payable which are converted at rates prevailing at each year end. As a result of major currency revaluations, commencing in 1973 the Bank provided a reserve for future exchange losses in an amount which approximates the difference between historical and current rates applicable to long-term borrowings having a translation loss. Such provision is reflected in the statement of income as provision for foreign exchange losses. Other realised and unrealised exchange gains and losses are reflected in the statement of income as foreign exchange losses (gains) - net.

Income Taxes

The Bank and its subsidiaries file separate income tax returns and provide taxes based on taxable income as determined under Swedish tax law. For all years presented, the Bank's taxable income was substantially the same as financial income reduced in 1973 and 1974 for a dividends-paid deduction and as to the national income tax reduced in each year by a deduction for local tax essentially on a cash basis.

Swedish law permits the Bank to reduce taxable income annually for dividends paid, limited to an amount equal to 5 per cent. of capital paid-in. This annual deduction is available for each of ten years, which need not be consecutive; however, it can only be taken within 15 years from the date the capital was paid-in. The deduction utilised in both 1973 and 1974 was Skr 35,000,000 (\$8,557,000). Based on capital paid-in to date the deduction available each year through 1981 amounts to Skr 50,000,000 (\$12,225,000) and decreases to Skr 25,000,000 (\$6,112,000) and Skr 15,000,000 (\$3,667,000) in 1982 and 1983, respectively.

The national statutory income tax rate was 40 per cent. for the years 1970 to 1974. The local income tax rate rose progressively from 19.03 per cent. in 1970 to 23.09 per cent. in 1974. The combined effective income tax rate for the Bank, which was approximately 54 per cent. for the years 1970 to 1972, declined to 7.4 per cent. in 1973 and 15.8 per cent. in 1974, primarily due to the dividends-paid deduction referred to above.

Reserve for Loan Losses

The provision for loan losses charged to operating expenses is computed to provide a reserve which is approximately 6 per cent. of total outstanding loans plus commitments issued but not yet disbursed which is the maximum reserve accepted under Swedish tax law.

Office Equipment

Office equipment is stated at cost less accumulated depreciation. Depreciation expense is charged to operating expense on a straight-line basis over a five-year life.

Organisation and Bond Issuance Costs

Organisation and bond issuance costs are charged to operating expense in the year incurred.

(2) Basis of Translation into U.S. Dollars

The financial statements presented herein are expressed in Swedish Kronor and, solely for the convenience of the reader, have been translated into United States dollars at the rate of Skr 4.09 = U.S. \$1, the rate prevailing as of 31st December, 1974. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars.

(3) Investments

A summary of the Bank's investments in and advances to and from subsidiaries, an affiliate and joint ventures, including the Bank's equity in their underlying net assets, is as follows:

Name	Percentage of ownership	Carrying Value		Equity in underlying net assets		At 31st December, 1974 Advances to (from) investee		Interest rate
		Skr	\$	Skr	\$	Amount		
		(000)	(000)	(000)	(000)	Skr	\$	
AB Strukturgaranti	100	500	122	500	122	(500)	(122)	5.00%
Sibtec AB	100	600	147	602	147	920	225	—
Svensk Företags Garanti AB	50	2,400	587	2,600	636	(2,400)	(587)	—
AB Svensk Petrokemisk Utveckling	20	120	29	120	29	—	—	—
Fastighets AB Sibos	50	100	24	100	24	8,702	2,128	10.25%
Sandviken Heat Production AB	100	100	24	258	63	26	6	—
Liquid Processing AB	100	70	17	40	10	660	161	—
		<u>3,890</u>	<u>951</u>	<u>4,220</u>	<u>1,031</u>	<u>7,408</u>	<u>1,811</u>	

Operating losses of AB Strukturgaranti and Sibtec AB for the year ended 31st December, 1974 aggregated Skr 668,000 (\$163,000) and were recorded by the Bank through contribution charges to income. During 1974 the Bank acquired Sandviken Heat Production AB and Liquid Processing AB, each of which was operating at a loss and had defaulted on its loan from the Bank. With respect to these acquisitions, in 1974 the Bank wrote off loans aggregating Skr 6,703,000 (\$1,639,000) which amount exceeded their operating losses for the year.

The Bank's proportionate part of the earnings of its investments in affiliate and joint ventures for the year ended 31st December, 1974 aggregated Skr 26,000 (\$6,000).

(4) Borrowed Funds

Short-term borrowings (consisting of demand and other notes with final maturities of one year or less) amounted to Skr 60,924,000 (\$14,896,000) at 31st December, 1974 and had an average interest rate of 7.68 per cent. The average amount outstanding during 1974 was Skr 57,000,000 (\$13,936,000) having an approximate average interest rate of 6.82 per cent. The maximum month-end balance was Skr 78,000,000 (\$19,071,000).

Medium-term borrowings (i.e., those with final maturities of more than one but less than ten years) aggregated Skr 29,078,000 (\$7,109,000) at 31st December, 1974 and had an average interest rate of 10.81 per cent. At 31st December, 1974 all medium-term borrowings had maturities of less than three years.

Long-term borrowings (i.e., those with a final maturity of ten years or more), including current maturities, at 31st December, 1974 were as follows:

	Outstanding	
	(Skr 000)	(\$000)
6.75 per cent. bonds due in ten annual instalments of DM 10,000,000, commencing in 1978. At date of issue, Skr 1.5042 = DM 1.....	150,420	36,777
7.75 per cent. bonds due in annual instalments of \$500,000 (1975-1979), \$1,000,000 (1980, 1981), \$1,500,000 (1982-1986), and \$2,000,000 (1987). At date of issue, Skr 4.7475 = \$1.....	66,465	16,251
7.50 per cent. bonds due in annual instalments of \$500,000 (1975-1980), \$1,000,000 (1981, 1982), \$1,500,000 (1983-1987), and \$2,000,000 (1988). At date of issue, Skr 4.73 = \$1.....	68,585	16,769
6.50 per cent. bonds due in five annual instalments of Sfr 10,000,000, commencing in 1984. At the date of issue, Skr 1.381 = Sfr 1.....	69,050	16,883
7.00 per cent. bonds due in ten annual instalments of DM 10,000,000, commencing in 1979. At date of issue, Skr 1.5260 = DM 1.....	152,600	37,310
Total foreign.....	507,120	123,990
Total domestic.....	749,000	183,130
Total long-term.....	1,256,120	307,120

The combined maturities of short-, medium- and long-term borrowed funds for the five-year period ending 31st December, 1979 are as follows:

	(Skr 000)	(\$000)
1975.....	98,423	24,064
1976.....	20,741	5,071
1977.....	18,052	4,414
1978.....	47,580	11,633
1979.....	79,640	19,471

All of the above are general obligations of the Bank. With respect to the foreign bond issues, the Bank or its agents may purchase bonds on the open market for the purpose of meeting the redemption provisions. All foreign issues are subject to early call at various dates commencing in 1978. The Bank's unsubordinated borrowing authority is limited to five times its equity capital and amounts to Skr 5,539 million (\$1,354 million) at 31st December, 1974.

(5) Reserve for Loan Losses

	1972		1973		1974	
	(Skr 000)	(\$000)	(Skr 000)	(\$000)	(Skr 000)	(\$000)
Balance at beginning of year.....	130,000	31,785	160,000	39,120	160,000	39,120
Provision.....	30,313	7,411	4,264	1,043	46,513	11,372
	160,313	39,196	164,264	40,163	206,513	50,492
Loan losses.....	313	76	5,974	1,461	6,927	1,694
Less recoveries.....	—	—	1,710	418	414	102
Net loan losses.....	313	76	4,264	1,043	6,513	1,592
Balance at end of year.....	160,000	39,120	160,000	39,120	200,000	48,900

(6) Equity Capital

The Bank was established in 1967 under the Swedish Companies Act of 1944 (the act governing Swedish limited liability companies). The Bank has an outstanding fully-paid share capital of Skr 900 million (\$220 million), the whole of which is owned by the Kingdom of Sweden.

Under the Companies Act of 1944, 10 per cent. of net income must be transferred annually to a statutory reserve, until such reserve equals 20 per cent. of share capital (Skr 180,000,000; \$44,016,000). At 31st December, 1974, this statutory reserve amounted to Skr 125,000,000 (\$30,562,000), of which Skr 100,000,000 (\$24,000,000) was paid in by the Kingdom of Sweden and the balance transferred from earnings. The reserve is available for distribution only upon dissolution.

An additional reserve is required to be created through annual transfers of 10 per cent. of net income when the aforementioned statutory reserve equals 20 per cent. of share capital. This additional statutory reserve is also restricted as to distribution until such time as total share capital and statutory reserves exceed the Bank's liabilities. Such excess may be returned to distributable retained earnings ratably over a five-year period; however, if the total share capital and initial statutory reserve exceed liabilities for five consecutive years, the entire additional reserve may be returned to distributable retained earnings.

When the Bank's liabilities are greater than the total of share capital and both statutory reserves, dividends declared in an amount exceeding 5 per cent. of net assets require an additional transfer to either statutory reserve of an amount equivalent to such excess.

(7) Commitments and Contingencies

At 31st December, 1974 the Bank had undisbursed loan commitments of Skr 1,406,000,000 (\$343,766,000) and was contingently liable on guarantees aggregating Skr 64,758,000 (\$15,833,000).

The Bank has a 50 per cent. interest in a corporate joint venture, Fastighets AB SIBOS, formed for the purpose of constructing a commercial building in Stockholm. Under the joint venture agreement, the Bank is financing the construction and at 31st December, 1974 had advanced Skr 8,702,000 (\$2,128,000). The Bank's commitment under this agreement is estimated to be Skr 48,000,000 (\$11,736,000). The Bank expects to move its operations to the new building in the autumn of 1975; however, no lease arrangement has been negotiated. Presently the Bank is committed under a lease at a quarterly rental of Skr 105,000 (\$25,672) which expires in September, 1975.

(8) Government Guarantee

The Kingdom of Sweden has guaranteed the obligations of the Bank up to Skr 900,000,000 (\$220,049,000).

(9) Subsequent Events

In January and February, 1975 the Bank made short-term borrowings of Swiss francs aggregating Sfr 30,000,000 (Skr 47,997,600, \$11,735,000).

In February and April, 1975 the Bank made long-term domestic borrowings aggregating Skr 225,000,000 (\$55,012,000).

In April, 1975 the Bank made a medium-term borrowing of Dutch guilders in the amount of Gld 50,000,000 (Skr 82,140,000, \$20,083,000).

In April, 1975 the Bank made two medium-term borrowings of Swiss Francs in an aggregate amount of Sfr 100,000,000 (Skr 155,025,000, \$37,903,000).

In June, 1975 the Bank made a medium-term borrowing of German marks in the amount of DM 100,000,000 (Skr 167,100,000, \$40,856,000).

On 25th March, 1975 a proposal was presented to the Parliament that the amount of the guarantee of the Kingdom of Sweden referred to in note (8) be increased to Skr 2,000,000,000 (\$489,000,000).

UNDERWRITING AND SUBSCRIPTION

Credit Suisse White Weld Limited, Swiss Bank Corporation (Overseas) Limited, Union Bank of Switzerland (Securities) Limited, Kredietbank S.A. Luxembourgeoise, Dresdner Bank Aktiengesellschaft, S. G. Warburg & Co. Ltd., Post-och Kreditbanken, PKbanken, Skandinaviska Enskilda Banken and Svenska Handelsbanken (the "Managers") have, pursuant to a Subscription Agreement dated 19th June, 1975, agreed with the Bank to procure subscribers for the Bonds as agents of the Bank. The Bank has agreed to pay commission aggregating $\frac{3}{4}\%$ of the principal amount of the Bonds to the Managers and the Underwriters. On behalf of the Bank, the Managers are inviting certain banks, brokers and dealers (the "Selling Group") to subscribe Bonds at the Offering Price less a concession of $1\frac{1}{2}\%$ of the principal amount of the Bonds, plus accrued interest. The Selling Group may concede a reallowance of $\frac{1}{2}\%$ out of such concession to recognised securities dealers. Payment for the Bonds subscribed will be made in U.S. dollars at a subscription price of \$1,246.48 per Bond, plus accrued interest, which has been computed on the basis of the principal amount of the Bonds, multiplied by the value of one IMF special drawing right in terms of the U.S. dollar, as determined by the IMF as of 19th June, 1975. It is expected that delivery of the Bonds will be made at the offices of Credit Suisse White Weld Limited, 122 Leadenhall Street, London EC3V 4QH, on or about 8th July, 1975.

The Subscription Agreement provides that the obligations of the Managers are subject to approval of certain legal matters by counsel and to certain other conditions precedent. The Bank has agreed to indemnify the Managers against certain liabilities and to reimburse the Managers for certain expenses.

The Bonds have not been registered under the Securities Act of 1933 of the United States of America and may not be offered or sold directly or indirectly in the United States (which term includes the territories, possessions and all areas subject to the jurisdiction of the United States of America) or to nationals or residents thereof as part of the distribution of the Bonds. Any reoffers and resales of Bonds in the United States or to nationals or residents thereof after distribution of the Bonds has been completed must be made in compliance with the registration requirements of the Securities Act of 1933 or pursuant to an exemption therefrom; and the availability of any such exemption would depend upon the facts and circumstances existing at the time of such reoffers and resales.

The Managers have represented and agreed that in connection with the distribution of the Bonds, except for offers or sales to Underwriters and to recognised securities dealers who agree and represent that they are subscribing for distribution in conformity with these provisions, they have not offered or sold and will not offer or sell any Bonds directly or indirectly in the United States or to nationals or residents thereof. Each Underwriter and member of the Selling Group must represent and agree that in connection with the distribution of the Bonds it has not offered or sold and will not offer or sell any Bonds directly or indirectly in the United States or to nationals or residents thereof. However, offers or sales of Bonds may be made on certain conditions to persons outside the United States who are not nationals or residents thereof through United States agents or fiduciaries.

Purchasers of Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase.

On behalf of the Bank, the Managers have entered into underwriting agreements in respect of the issue with, amongst others, the following Underwriters:

Austria
Creditanstalt-Bankverein
Girozentrale und Bank der österreichischen
Sparkassen AG

Bahamas
Euramerica Finanziaria Internazionale S.p.A.
Handelsbank in Zurich (Overseas) Limited

Belgium
Banque de Bruxelles S.A.
Banque de Commerce S.A.

Crédit Général Société Anonyme de Banque
Dewaay, Cortvriendt International S.A.
Kredietbank N.V.
Peterbroeck, van Campenhout Securities S.A.
Société Générale de Banque S.A.

Denmark
Andelsbanken A/S
Den Danske Landmandsbank
Kjøbenhavns Handelsbank
Privatbanken A/S

Finland

Helsingfors Aktiebank
Kansallis-Osake-Pankki
Nordiska Föreningsbanken AB

France

Banque Européenne de Tokyo
Banque Française du Commerce Extérieur
Banque Française de Dépôts et de Titres
Banque Nationale de Paris
Banque de Neufize, Schlumberger, Mallet
Banque de Paris et des Pays-Bas
Banque Rothschild
Banque de Suez et de l'Union des Mines
Banque de l'Union Européenne
Banque Worms
Caisse de Dépôts et de Consignations
Crédit Commercial de France
Crédit Industriel et Commercial
Crédit Lyonnais
Crédit du Nord et Union Parisienne—Union
Bancaire
Finacor
Lazard Frères & Cie
Morgan & Cie International S.A.
Société Générale
Société Séquanaise de Banque
Union de Banques Arabes et Françaises—
U.B.A.F.

Germany

Bayerische Hypotheken-und Wechsel-Bank
Bayerische Vereinsbank
Berliner Handels-Gesellschaft—Frankfurter
Bank—
Deutsche Bank Aktiengesellschaft
Deutsche Girozentrale-Deutsche Kommunalbank
Commerzbank Aktiengesellschaft
Effectenbank-Warburg Aktiengesellschaft
Hessische Landesbank—Girozentrale
Merck, Finck & Co.
Norddeutsche Landesbank Girozentrale
Sal. Oppenheim Jr. & Cie
C. G. Trinkhaus & Burkhardt
Vereins-und Westbank Aktiengesellschaft
M.M. Warburg-Brinckmann, Wirtz & Co.
Westdeutsche Landesbank Girozentrale

Hong Kong

Ayala Finance (HK) Limited
Jardine Fleming & Company Limited
Schroders & Chartered Limited
Sumitomo & East Asia Limited

Italy

Banca Commerciale Italiana
Banca Nazionale del Lavoro
Banco di Roma
Capitalfin Internazionale S.p.A.
Compagnia Finanziaria Intermobiliare S.p.A.
Credito Italiano

Japan

Daiwa Europe N.V.
The Nikko Securities Co., (Europe) Ltd.

Nomura Europe N.V.
Yamaichi International (Europe) Ltd.

Luxembourg

Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg S.A.
Banque Lambert-Luxembourg S.A.
Compagnie de Banque et d'Investissements
(Underwriters) S.A.
Compagnie Luxembourgeoise de Banque S.A.
Mercur-Bank S.A.

Netherlands

Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Bank Mees & Hope N.V.
H. Albert de Bary & Co. N.V.
Pierson, Heldring & Pierson

Norway

Andresens Bank A/S
Bergens Privatbank
Christiania Bank og Kreditkasse
Den norske Creditbank
Fellesbanken A/S

Sweden

Götabanken

United Kingdom

Julius Baer International Limited
Banco Urquijo Limited
Bank of America (International) Limited
Bankers Trust International Limited
Baring Brothers & Co., Limited
Citicorp International Bank Limited
Dillon, Read Overseas Corporation
European Banking Company Limited
First Boston (Europe) Limited
Robert Fleming & Co. Limited
Antony Gibbs Holdings Ltd.
Goldman Sachs International Corp.
Hambros Bank Limited
Hill Samuel & Co. Limited
International Marine Banking Co. Limited
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Lazard Brothers & Co., Limited
Lloyds Bank International Limited
London Multinational Bank (Underwriters)
Limited
Manufacturers Hanover Limited
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
National Westminster Bank Limited
Orion Bank Limited
Nordic Bank Limited
N. M. Rothschild & Sons Limited
Scandinavian Bank Limited
J. Henry Schroder Wagg & Co. Limited
Singer & Friedlander Limited

Strauss, Turnbull & Co.
Sumitomo White Weld Limited
Williams, Glyn & Co.
Wood Gundy Limited

United States

ABD Securities Corporation
Arnhold & S. Bleichroeder LLC
Basle Securities Corp.
Blyth Eastman Dillon & Co. Incorporated
Kuhn Loeb & Co. International
Lazard Frères & Co.
Lehman Brothers Incorporated

Merrill Lynch, Pierce, Fenner & Smith Securities
Underwriter Limited
Salomon Brothers
Shields Model Roland Incorporated
Smith, Barney & Co. Incorporated
SoGen Swiss International Corp.
UBS-DB Corporation
Warburg Paribas Becker Inc.
White, Weld & Co. Incorporated

Others

Bank Leu Limited
Clariden Bank
J. Vontobel & Co.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: Japan Development Bank

Location: Main office in Tokyo. Other offices in 9 cities in Japan and in Washington, D. C., New York City, London and Frankfurt.

Size: 3/31/76

Assets: ¥ 3,521,391 million (\$11,433 million)
Capital: ¥ 233,971 million (\$759.6 million)

Purpose: Established in 1951 as a Japanese Government financial institution pursuant to the Japan Development Bank Law. Purpose is to supply long-term funds for the promotion of industrial development and economic and social progress. JDB makes loans to provide funds: (1) for acquisition and construction or improvement of plant and equipment; (2) for reclamation of land; (3) for acquisition of land and construction of buildings and equipment for urban redevelopment projects. A related authority (which JDB has not yet exercised) permits JDB to provide funds by subscription to corporate debentures issued to raise funds for above purposes. JDB can guarantee repayments of loans and has authority to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

Source of Funds: Principal sources are borrowings from Japanese Government, repayment of loans and internal sources. Outstanding government loans to JDB as of 3/31/76 amounted to \$9.3 billion. Other sources have consisted of foreign currency borrowings from the World Bank, all guaranteed by the Japanese Government. Also, there have been 6 dollar issues (including 5 registered issues publicly offered in U. S.), 1 Swiss franc issue and 1 Deutsche Mark issue of external loan bonds and notes. JDB is authorized to borrow an amount equal to 10x its capital and statutory reserve.

Management Structure: JDB is managed by a Governor, a Deputy Governor and 8 Executive Directors. JDB also has 2 auditors and 6 Counsellors. The Governor, the Deputy and the Auditors are appointed by the Prime Minister for terms of 4 years. The Executive Directors and Counsellors are appointed by the Governor for terms of 4 years and 2 years, respectively. The Governor is the CEO. The Executive Directors exercise various management functions in accordance with delegations from the Governor. Final authority to make decisions for JDB in all matters resides exclusively with the Governor.

Management of Funds: JDB makes its loans at fixed rates no greater than rates charged by private financial lenders and in most cases at lower rates. Maximum rate has been 9.2% since 11-75. JDB has limited foreign currency loans to amount of borrowings from the World Bank and charges the same interest rate plus 0.3%. JDB charges 0.2% to 0.3% per annum on outstanding amounts of foreign credits guaranteed by it. JDB makes most of its loans with original maturity of 10 - 15 years. Most of JDB's lending operations involve the financing of projects in cooperation with private financial institutions, with JDB taking the intermediate and longer term maturities and private banks taking the shorter maturities.

Portfolio: From inception to late 1960's, JDB's lending activities were directed primarily to electrical power, ocean shipping, coal mining, and the iron and steel industry. In the late 1960's and 1970's, JDB began to become more involved in urban development and pollution control. As of 3/31/76, portfolio was as follows: urban development 16.9%; regional development 12.5%; pollution control 14.2%; quality of life improvement projects 2.8%; resources and energy 15.7%; ocean shipping 21.6%; technological development 7.6%; other 8.2%; foreign currency loans 0.5%.

Capital Structure:	3/31/76	(\$ Millions)	%
Long-term borrowing from government		\$ 9,299	84.4%
Guaranteed long-term borrowing from World Bank		55	0.5
Guaranteed external loan bonds and notes		228	2.1
Capital and statutory reserve		<u>1,437</u>	<u>13.0</u>
Total capital		\$11,019	100.0%

Income: For fiscal year ending 3/31/76 JDB earned \$105.6 million. Of net earnings, \$78.9 million were put into the statutory reserve, and \$26.7 million was paid to the Japanese National Treasury.

PROSPECTUS

\$100,000,000

The Japan Development Bank

8 $\frac{1}{4}$ % Guaranteed Notes Due July 15, 1981

Interest is payable on January 15 and July 15.

Unconditionally Guaranteed as to Payment of Principal and Interest by

Japan

The Notes are not redeemable prior to maturity.

Application has been made to list the Notes on the New York Stock Exchange.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to the Bank(1)(3)
Per Note	99.80%	0.90%	98.90%
Total	\$99,800,000	\$900,000	\$98,900,000

(1) Plus accrued interest, if any, from July 15, 1976.

(2) The Japan Development Bank and Japan have agreed severally to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(3) Before deduction of expenses payable by The Japan Development Bank estimated at \$275,000, including \$75,000 payable to the Underwriters in lieu of reimbursement of any of their expenses.

The Notes are offered by the several Underwriters when, as and if issued by The Japan Development Bank and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Notes will be ready for delivery on or about July 15, 1976.

The First Boston Corporation

Dillon, Read & Co. Inc.

Smith Barney, Harris Upham & Co.
Incorporated

The Nikko Securities Co.
International, Inc.

The date of this Prospectus is July 8, 1976.

No person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. This Prospectus does not constitute an offer of any securities other than the registered securities to which it relates, or an offer to any person in any jurisdiction where such offer would be unlawful.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES OFFERED HEREBY AND OF THE BANK'S 8½% GUARANTEED NOTES DUE MARCH 15, 1980 AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In the Prospectus, all amounts are expressed in Japanese Yen ("¥" or "yen"), except as otherwise specified, and in certain cases are also expressed for convenience in United States Dollars ("\$" or "dollars"). Unless otherwise indicated, all dollar amounts expressed herein have been translated from yen at the rate of ¥308 to the dollar. This is the central rate of the yen as communicated by Japan to the International Monetary Fund (the "IMF") on December 19, 1971. Central rates are rates communicated to the IMF pursuant to a Decision of the Executive Board of the IMF dated December 18, 1971 (which was issued immediately following the realignment of exchange rates provided for by the so-called Smithsonian Agreement of the Group of Ten) by member countries which have temporarily ceased to maintain rates based on par values in accordance with the IMF Articles of Agreement but which continue to maintain stable rates as the bases for exchange transactions in their territories. On February 14, 1973, Japan ceased to maintain a stable rate and the yen was floated. Since the floating of the yen, the exchange rate of the yen to the dollar has at all times been less than ¥308 to the dollar. Since January 1, 1976, the daily closing selling rate as reported by The Bank of Tokyo, Ltd. in New York City has ranged from a low of ¥295.90 to a high of ¥305.90 to the dollar. On July 7, 1976, such reported closing selling rate was ¥296.34 to the dollar. The central rate of ¥308 to the dollar has been used in the Prospectus (except as otherwise indicated) because The Japan Development Bank continues to use this rate for translation of yen amounts into dollars in its Annual and Semi-Annual Reports, as does the Japanese Government in a number of its official publications.

The Japanese fiscal year ("JFY") commences annually on April 1, and each fiscal year is identified by the calendar year in which it begins. Thus the most recent complete fiscal year, which ended on March 31, 1976, is referred to as JFY 1975. Certain data, such as those appearing under "Foreign Trade and Balance of Payments" in the portion of the Prospectus relating to Japan which are designed to comply with international reporting requirements, are maintained on a calendar year basis. All annual periods not specifically labelled "JFY" are calendar years.

PROSPECTUS SUMMARY

THE JAPAN DEVELOPMENT BANK

The Japan Development Bank (the "Bank") was established in 1951 as a Japanese Government financial institution pursuant to The Japan Development Bank Law (the "JDB Law"). The Bank's purpose is to supply long-term funds for the promotion of industrial development and economic and social progress.

The Bank's capital is wholly owned by the Government of Japan, and the Bank is subject to Government control and supervision in conducting its operations. The Minister of Finance has supervisory powers over the Bank and determines, with the approval of the Diet, the amount of Government funds to be loaned to the Bank for its lending. The Economic Planning Agency prepares for adoption by the Cabinet a Basic Policy for the Bank each year to outline the principal project areas for the Bank's activities, and the Bank's annual budget of revenues and expenditures is subject to approval by the Diet. In addition, the Governor, Deputy Governor and Auditors of the Bank are appointed by the Prime Minister.

The Bank's equity capital is \$760 million. In addition, under the JDB Law, the Bank must set aside as a reserve out of the net earnings of each fiscal year the greater of (i) 20% of the Bank's net earnings or (ii) 0.7% of the Bank's aggregate loans outstanding at the close of the fiscal year (but not in excess of net earnings). Consequently, the total capital and statutory reserve of the Bank has grown to \$1.4 billion. By law, the Bank may borrow up to ten times the amount of its capital and statutory reserve. At March 31, 1976, the Bank's total borrowings, principally from the Government, amounted to \$9.5 billion, compared to the Bank's borrowing authority at that date of \$14.4 billion. At March 31, 1976, the Bank's reserve for loan losses totaled \$261.0 million, while the amount of loans written off during the five years ended March 31, 1976 totaled \$1.3 million. For the fiscal year ended March 31, 1976, the Bank recorded net earnings of \$105.7 million. The Bank has operated at a profit and has made payments to the Japanese National Treasury out of its net earnings in every year since its establishment.

Under the JDB Law, the Bank must fix its interest rates and guarantee fees on a basis such that the Bank's revenues will cover all of its expenditures and losses. The Bank makes its own decisions on loans and loan terms and satisfies itself that there are reasonable assurances of repayment. As a matter of policy, the Bank makes its loans at rates no higher than the rates charged by private financial institutions and in most cases at lower rates. Most of the Bank's loans are made in cooperation with private financial institutions.

In its early years, the Bank's lending activities were directed primarily toward basic industries such as electric power, ocean shipping, coal mining and the iron and steel industry. In the late 1960's and early 1970's, reflecting Japan's achievement of a high level of industrial development, the Bank began to direct its lending activities toward projects such as urban and regional development and pollution prevention. In addition, the Bank has guaranteed foreign currency indebtedness incurred by Japanese corporations in connection with the procurement of plant and equipment, principally from foreign sources.

JAPAN

Japan is a mountainous island country in the western Pacific, with a population of 112 million. Japan has a parliamentary form of government based upon a constitution which became effective May 3, 1947. The ruling Liberal Democratic Party has remained in power since 1955 and presently holds 56% of the seats in the House of Representatives and a narrow majority in the House of Councillors.

Gross national product at constant prices increased at compound annual growth rates of 8.1% and 4.7% for the ten and five year periods, respectively, ending JFY 1975. These rates of growth surpassed those of any other developed country and were due in part to the high level of savings and investment in both the private and public sectors. The percentage of gross domestic investment to gross national product averaged 37% during the ten year period. Gross national product at current prices for JFY 1975 was \$484.1 billion, ranking third after the United States and the Soviet Union.

Japan has achieved its economic success in spite of limited domestic supplies of most of the natural resources required for an industrialized economy. As a leading trading nation, Japan has been able to secure and develop foreign markets for its manufactured products and earn enough foreign exchange to purchase industrial raw materials. During 1975, exports and imports totaled \$54.7 billion and \$49.7 billion, respectively, each accounting for approximately 12% and 11% of gross national product, respectively. Japan's \$5.0 billion surplus in its balance of trade for 1975 was due in part to a decreased volume of imports. Although the basic balance of payments, which had been in surplus prior to 1973, recorded a record deficit of \$9.9 billion in 1973, this deficit was reduced to \$1.0 billion by 1975. As of June 30, 1976, Japan's official foreign exchange reserves totaled \$15.4 billion.

In the latter part of 1973, Japan's economy was adversely affected by unexpected price increases for a number of raw materials, particularly crude oil, over 99% of which is imported. As a result, during the first half of 1974, Japan's balance of trade recorded a deficit, and the domestic rate of inflation increased substantially. The Government responded with a series of measures which were successful in curtailing domestic demand, but which resulted in a 0.2% decrease in gross national product at constant prices during JFY 1974. In response to the easing of inflation in 1975 and an accompanying decline in economic activity, the Government adopted a series of budgetary, monetary and other measures designed to initiate a moderate economic recovery. There is evidence of such a recovery, and in JFY 1975 gross national product at constant prices registered a 3.1% increase over JFY 1974.

APPLICATION OF PROCEEDS

The net proceeds from the sale of the Bank's 8¼% Guaranteed Notes Due July 15, 1981 (the "Notes") will be converted into yen and will be used by the Bank to make loans in Japan. See discussion of the Bank's lending operations under "Business—Loan Operations" in the portion of the Prospectus relating to The Japan Development Bank.

THE ISSUE IN BRIEF

THE OFFERING

Issuer:	The Japan Development Bank
Guarantor:	Japan
Securities:	\$100,000,000 8¼% Guaranteed Notes Due July 15, 1981
Redemption:	Non-redeemable prior to maturity
Proposed Listing:	New York Stock Exchange
Application of Proceeds:	Conversion into yen to make loans in Japan

THE JAPAN DEVELOPMENT BANK

(dollar amounts in thousands)

	Fiscal Years ended March 31,	
	1975	1976
Operating Earnings	\$619,718	\$729,604
Interest Expense	482,315	578,565
Net Earnings	91,987	105,653
Earnings Added to Statutory Reserve	68,419	78,907
	<u>March 31, 1976</u>	
Loans Outstanding (including undisbursed balance)	<u>\$11,272,490</u>	
Borrowings (including the Notes offered hereby)	\$ 9,581,623	87.0%
Capital and Statutory Reserve	1,437,056	13.0
Total Capitalization	<u>\$11,018,679</u>	<u>100.0%</u>

JAPAN

(dollar amounts in millions)

The Economy

	JFY 1973	JFY 1974	JFY 1975
Gross National Product (current prices)	\$375,339	\$442,660	\$484,066 (provisional)
% change (current prices) from prior year	22.0%	17.9%	9.4%
% change (constant prices) from prior year	6.4%	(0.2)%	3.1%
Wholesale Price Index (calendar 1970=100) ...	125.4	154.8	158.1
Consumer Price Index (calendar 1970=100) ...	131.0	159.6	176.2

Balance of Payments

	1973	1974	1975
Exports (f.o.b.)	\$ 36,264	\$ 54,480	\$ 54,734
Imports (f.o.b.)	(32,576)	(53,044)	(49,706)
Trade Balance	3,688	1,436	5,028
Current Balance	(136)	(4,693)	(682)
Basic Balance	(9,886)	(8,574)	(954)
Foreign Exchange Reserves (end of period)	12,246	13,519	12,815

Government Finance

	JFY 1975 Budget	JFY 1976 Budget
General Account		
Total Revenues	\$67,653	\$78,883
(Revenues derived from Public Bonds) (17,792) (23,620)*		
Total Expenditures	67,653	78,883

Public Debt

	March 31, 1976
Direct and Guaranteed Funded Debt	
Internal	\$60,411
External	2,127
Total	<u>\$62,538**</u>

* Includes bonds the issuance of which is subject to Diet approval. See "Government Finance—Revenues, Expenditures and Budgets".

** Does not include obligations described under "Japan Public Debt—Miscellaneous Obligations".

The above summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere in the Prospectus.

THE JAPAN DEVELOPMENT BANK

CAPITALIZATION

The capitalization of the Bank as of March 31, 1976, as adjusted to give effect to the sale of the principal amount of the Notes offered hereby, is as follows:

	(in millions of yen)	(in thousands of dollars)
Long-term borrowings from the Government:		
Trust Fund Bureau 6.2%-8.7% loans due 1976 to 1991	¥2,848,851	\$ 9,249,516
Industrial Investment Special Account 6.5%-7.5% loans due 1979 to 1983	15,152	49,195
Total borrowings from the Government	2,864,003	9,298,711
Guaranteed long-term borrowings from the International Bank for Reconstruction and Development ("World Bank") (1):		
5¾%-5¾% U. S. dollar obligations due 1983 (\$30,887)	9,417	30,575
5¾%-5¾% other foreign currency obligations due 1981 to 1983 ..	7,588	24,636
Total borrowings from the World Bank	17,005	55,211
Guaranteed external loan bonds and notes(1):		
Dollar obligations		
6% Guaranteed External Loan Bonds Due 1976 (\$2,397) ...	730	2,371
6% Guaranteed External Loan Bonds Due 1977 (\$4,050) ...	1,235	4,009
6% Guaranteed External Loan Bonds Due 1978 (\$6,054) ...	1,846	5,993
5¾% Guaranteed External Loan Bonds Due 1979 (\$8,380) ..	2,555	8,296
8½% Guaranteed Notes Due March 15, 1980 (\$50,000)	14,260	46,298
6½% Guaranteed External Loan Bonds Due 1980 (\$9,870) ..	3,009	9,771
8¼% Guaranteed Notes Due 1981 offered hereby (\$100,000)	30,800	100,000
Swiss franc obligation		
5¾% Guaranteed External Loan Bonds Due 1985	3,977	12,912
Deutsche mark obligation		
7¼% Guaranteed External Loan Bonds Due 1983	11,720	38,051
Total external loan bonds and notes	70,132	227,701
Total long-term borrowings(2)	2,951,140	9,581,623
Capital and statutory reserve:		
Capital	233,971	759,646
Statutory reserve	208,642	677,410
Total capital and statutory reserve	442,613	1,437,056
Total capitalization	¥3,393,753	\$11,018,679

(1) The actual dollar amounts of obligations are set forth in parentheses (in thousands of dollars) for dollar borrowings.

(2) The amounts shown under long-term borrowings include current maturities and sinking fund payments. The Bank had contingent liabilities in the aggregate amount of ¥362,801 million (\$1,177,924 thousand) under outstanding guarantees of foreign currency indebtedness, principally in dollars, incurred by Japanese companies and with respect to special payments to the Government.

Total borrowings from the Government, translated into dollars using the exchange rate in effect in New York City on March 31, 1976, were \$9,561,337 thousand. Total guaranteed borrowings from the World Bank and guaranteed external loan bonds and notes, translated into dollars and retranslated into yen at rates in effect in New York City on March 31, 1976 were \$299,346 thousand and ¥89,666 million, respectively.

For more detailed information see Notes 4 and 8 of "Notes to Financial Statements".

STATEMENT OF EARNINGS

In preparing the following statement of earnings for purposes of this Prospectus certain changes in classification and form of presentation have been made from the statements of earnings appearing in the annual reports of the Bank. See "Report of Board of Audit" elsewhere herein. This statement should be read in conjunction with the other financial statements and "Notes to Financial Statements" included in this Prospectus.

	Fiscal Years ended March 31,					1976 (in thousands of dollars)
	1972	1973	1974	1975	1976	
	(in millions of yen)					
Operating Earnings(A) :						
Interest on loans in Japanese currency	¥128,866	¥143,049	¥163,641	¥188,443	¥222,423	\$722,153
Interest on loans in foreign currencies	2,608	1,846	1,521	1,390	1,136	3,688
Commission on guarantees of credit	389	422	436	458	512	1,662
Income on Government securities	140	247	1,173	582	647	2,101
Total Operating Earnings	132,003	145,564	166,771	190,873	224,718	729,604
Interest Expense(B) :						
On borrowings from the Government	91,146	106,686	124,733	146,023	174,793	567,509
On borrowings from the World Bank	2,355	1,755	1,447	1,323	1,081	3,511
On external loan bonds and notes	1,614	1,253	1,117	1,207	2,324	7,545
Total Interest Expense	95,115	109,694	127,297	148,553	178,198	578,565
Earnings before Administrative and Other Expenses	36,888	35,870	39,474	42,320	46,520	151,039
Administrative and Other Expenses:						
Salaries and related expenses	2,687	3,005	3,731	5,076	5,826	18,916
Other administrative expenses	1,369	1,507	1,693	2,090	2,344	7,610
Depreciation	224	220	244	238	225	730
Other (income) and expenses—net(C)	(3,890)	(85)	(308)	(275)	(215)	(618)
Total Administrative and Other Expenses ..	390	4,647	5,360	7,129	8,180	26,558
Earnings before Provision for Possible Loan Losses	36,498	31,223	34,114	35,191	38,340	124,481
Provision for Possible Loan Losses(D)	5,010	5,644	7,320	6,859	5,799	18,828
Net Earnings(E)	¥ 31,484	¥ 25,579	¥ 26,794	¥ 28,332	¥ 32,541	\$105,653
For addition to Statutory Reserve	¥ 14,483	¥ 16,270	¥ 18,466	¥ 21,073	¥ 24,303	\$ 78,907
For payment to National Treasury	17,001	9,309	8,328	7,259	8,238	26,746
	¥ 31,484	¥ 25,579	¥ 26,794	¥ 28,332	¥ 32,541	\$105,653

(A) Effective April 1, 1967, the Bank adopted the policy of recording interest on loans on an accrual basis; formerly interest was recognized on a cash basis. In accordance with the Cabinet Order and regulations thereunder applicable to the Bank, the effect of the change was recognized incrementally over the five years ending March 31, 1972. Had the accrual basis been adopted completely on April 1, 1967, net earnings for the fiscal year ended March 31, 1972 would have been ¥28,435 million.

(B) Interest expense is charged on an accrual basis.

(C) As of March 31, 1972, the Bank adjusted its foreign currency obligations (primarily in dollars) to a rate of ¥304.9 to the dollar, causing a credit to "Other (income) and expenses—net" of ¥3,493 million in the fiscal year ended March 31, 1972. See Note 4 of "Notes to Financial Statements".

(D) See Note 5 of "Notes to Financial Statements".

(E) The Bank is required to pay to the Japanese National Treasury all net earnings in excess of the amount required to be added to the Statutory Reserve, as described in Note 7 of "Notes to Financial Statements". The Bank is exempt from taxes including income taxes, except that it is subject to certain local assessments.

The increases in "Total Operating Earnings" over the periods presented are attributable to the combined effects of increases in lending rates and in the overall size of the Bank's loan portfolio. Total interest expense has increased due to higher interest rates and increases in the amount of borrowed funds. Notwithstanding the favorable effect on net earnings of the incremental adoption of the accrual basis for recognition of interest on loans for the year ended March 31, 1972 (as explained in Note A to the "Statement of Earnings") and the extraordinary adjustment in 1972 of foreign currency obligations (as explained in Note C to the "Statement of Earnings"), "Net Earnings" as a percent of "Total Operating Earnings" has declined compared to the prior year in each year presented because interest expense has increased at a greater rate than operating earnings.

The annual interest requirement on the Notes offered hereby is \$8,250,000.

BUSINESS

Purpose and Authority

The Japan Development Bank was established on April 20, 1951, pursuant to The Japan Development Bank Law, "to supplement and encourage the credit operation of ordinary financial institutions by supplying long-term funds in order to promote economic reconstruction and industrial development". In June 1972, reflecting a fundamental change in Government policy which had been evolving over a period of years, the Bank's purpose in supplying long-term funds was changed from the promotion of "economic reconstruction and industrial development" to "industrial development and economic and social progress". This change in the Bank's purpose reflects the fact that Japan, having achieved a high degree of industrial development, is in the process of changing its national priorities.

As amended from time to time, the JDB Law and the Bank's Articles of Incorporation (the "Articles") authorize the Bank to carry on certain specific types of financial operations. The Bank's principal authority is to make loans to provide funds ("Development Funds") (i) for the acquisition and construction of new plant and equipment (including aircraft, ships and rolling stock) or the improvement of existing plant and equipment, where such acquisition or improvement will contribute to industrial development and economic and social progress; (ii) for the reclamation of land for similar purposes; and (iii) for the acquisition of land and construction of buildings and equipment for urban redevelopment projects not primarily designed for housing purposes. Most of the Bank's activities have been carried out pursuant to this authority. A related authority (which the Bank has not as yet exercised) permits the Bank to provide Development Funds by subscription to corporate debentures issued for the acquisition of Development Funds for the above purposes. The Bank has authority (which it has not exercised since 1963) to make loans to industry for the repayment of Development Fund loans previously obtained from private financial institutions. The Bank is also authorized to guarantee the repayment of Development Fund loans or credits. Since 1972, the Bank has had authority (which it has not as yet exercised) to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

The JDB Law and the Articles specify that all loans and guarantees extended by the Bank and all debentures subscribed to by the Bank shall have an original maturity of not less than one year and that the Bank shall not compete with private financial institutions in conducting its business.

Since 1951, the JDB Law has been amended on several occasions, generally in order to strengthen and broaden the scope of the Bank's operations in response to changing social and economic conditions. In June 1972, the Bank's borrowing authority was increased from six times to ten times its capital and statutory reserve. The Bank's total investment, loan and guarantee authority is limited to the sum of its borrowing authority and capital and statutory reserve.

Government Control and Supervision

The Bank's capital is wholly owned by the Government, and the Bank is subject in a number of respects to control and supervision by the Government. As indicated under "Sources of Funds", the most important source of the Bank's funds is Government loans. Accordingly, the Government's determination in each fiscal year as to the amount to be loaned to the Bank is the major factor in determining

the aggregate amount of Japanese currency which the Bank will be able to lend. For each fiscal year, the Minister of Finance draws up a "Fiscal Investment and Loan Program" by which the Government determines the allocation of Government funds to be made on a long-term basis (five years or more) among certain Government agencies, including the Bank, which are engaged in development financing and public works and services. Such allocation is then included in the Government Special Accounts Budget for the fiscal year. See "Government Finance" in the portion of the Prospectus relating to Japan. In addition, the budget of revenues and expenditures of the Bank is included in the Government Agencies Budget for each fiscal year. Each year these budgets are subject to approval by the Diet.

Prior to JFY 1972, the Economic Planning Agency prepared, and the Cabinet adopted, each year a Basic Policy outlining objectives to be pursued by Government agencies. Starting in JFY 1972, an annual Basic Policy has been prepared and adopted specifically for the Bank. This Basic Policy is project-oriented and for JFY 1976 describes in broad terms the following principal project areas for the Bank's activities: (i) urban development and modernization of the merchandise distribution system; (ii) regional development; (iii) improvement of the quality of life, primarily through pollution prevention and safety measures; (iv) development of stable supplies and efficient utilization of energy and resources; (v) development of the ocean shipping industry; and (vi) development of technology and promotion of knowledge-intensive industries such as computers and electronics.

The Minister of Finance is given supervisory powers with regard to the Bank and may require the Bank to make reports as to its operations or may examine the Bank's books and records at any time. On the basis of any such reports or examination, the Minister may issue to the Bank such orders concerning its business as he deems necessary for the enforcement of the JDB Law. To the extent that the Bank engages in foreign currency lending and foreign credit guarantee operations, such operations are subject to approval by the Minister of Finance under laws and regulations relating to foreign exchange controls.

As indicated under "Management", the Governor, Deputy Governor and Auditors of the Bank are appointed by the Prime Minister. The Board of Audit, an independent body created by the Constitution of Japan, also has certain supervisory functions. See "Board of Audit".

Loan Operations

In its early years, the Bank's lending activities were directed primarily to the assistance of the electric power, ocean shipping, coal mining and iron and steel industries. In the late 1960's and early 1970's, reflecting Japan's achievement of a high level of industrial development, the Bank began to direct its lending activities toward projects more characteristic of a highly developed economy, such as urban development and pollution control. This evolution in the nature of the Bank's lending activities was formalized in 1972 in amendments to the JDB Law described under "Purpose and Authority".

The following table sets forth, as of the ends of the periods indicated, the total amount of loans outstanding for various categories of industries classified in accordance with the Bank's historical system of classification by industry:

	Fiscal Years ended March 31,						1976 (in millions of dollars)	(as % of total)
	1967	1972	1973	1974	1975	1976		
	(in billions of yen)							
Electric Power	¥ 385	¥ 407	¥ 430	¥ 461	¥ 508	¥ 581	\$ 1,836	16.7%
Transportation	394	872	976	1,070	1,120	1,154	3,748	33.3
Mining	91	90	85	83	80	81	262	2.3
Metal	54	89	101	127	161	215	698	6.2
Chemical	67	120	124	128	180	230	746	6.6
Machinery	44	84	86	102	119	150	424	3.8
Agriculture, Forestry and Fishery	3	11	15	18	17	18	58	0.5
Textile	14	35	39	46	50	52	168	1.5
Other	104	361	468	603	776	1,011	3,280	29.1
Total	<u>¥1,156</u>	<u>¥2,069</u>	<u>¥2,324</u>	<u>¥2,638</u>	<u>¥3,011</u>	<u>¥3,472</u>	<u>\$11,272</u>	<u>100.0%</u>

The increase in the amounts classified as "Other" in the preceding table reflects the evolution of the Bank's lending activities from industry orientation to project orientation. The following table sets forth, for the periods indicated, the total amount of loans outstanding for various categories of projects classified in accordance with the Bank's current system of classification:

LOANS OUTSTANDING BY PROJECT

	Fiscal Years ended March 31,					1976	
	1972	1973	1974	1975	(in millions of dollars)		(as % of total)
	(in billions of yen)						
LOANS IN YEN							
Urban Development							
Redevelopment of large city areas	¥ 167	¥ 222	¥ 301	¥ 383	¥ 483	\$ 1,568	13.9%
Modernization of merchandise distribution ..	52	61	72	86	105	340	3.0
Sub-total	219	283	373	469	588	1,908	16.9
Regional Development	235	272	312	369	435	1,412	12.5
Improvement of the Quality of Life							
Pollution prevention ...	32	73	145	300	492	1,597	14.2
Safety measures	—	—	—	5	14	47	0.4
City gas	4	16	29	38	54	176	1.6
Food supply	12	20	27	30	29	94	0.8
Sub-total	48	109	201	373	589	1,914	17.0
Resources and Energy							
Electric power	349	356	371	389	398	1,291	11.5
Petroleum	69	82	103	119	131	426	3.8
Efficient utilization of resources and energy ..	0	0	0	4	16	51	0.4
Sub-total	418	438	474	512	545	1,768	15.7
Ocean Shipping	670	743	771	772	750	2,434	21.6
Development of Technology	174	184	203	223	265	861	7.6
Other	270	266	280	273	283	920	8.2
Total	2,034	2,295	2,614	2,991	3,455	11,217	99.5
LOANS IN FOREIGN CURRENCIES							
Total Loans Outstanding	35	29	24	20	17	55	0.5
Total Loans Outstanding	¥2,069	¥2,324	¥2,638	¥3,011	¥3,472	\$11,272	100.0%

During the fiscal year ended March 31, 1976, total loans extended by the Bank increased 21% over the prior year. The following table sets forth the new loans by the Bank's current system of classification for the periods indicated:

NEW LOANS BY PROJECT

	Fiscal Years ended March 31,				1976	
	1973	1974	1975	(in millions of dollars)		(as % of total)
	(in billions of yen)					
Urban Development	¥ 73.8	¥100.9	¥109.3	¥139.0	\$ 451.2	18.1%
Regional Development	74.1	81.0	99.9	112.1	363.9	14.6
Improvement of the Quality of Life	64.6	97.8	182.7	235.5	764.7	30.7
Resources and Energy	45.3	64.8	64.8	69.5	225.5	9.1
Ocean Shipping	135.6	96.7	78.6	75.6	245.3	9.9
Development of Technology	40.3	57.1	62.9	87.5	284.2	11.4
Other	26.8	45.6	33.5	47.0	152.8	6.2
Total	¥460.5	¥543.9	¥631.7	¥766.2	\$2,487.6	100.0%

The loans for urban development consisted of loans to projects for the improvement of private railroads in large cities, urban development in large city areas and modernization of the merchandise distribution system. Improvement of private railroads was directed toward improvement of safety features as well as increasing capacity. Urban development (which was carried out by the financing of private developers) involved urban renewal in business districts, certain land development projects, provision of central air conditioning facilities for particular areas and construction of parking facilities, airport facilities and common tunnels for the distribution of electricity, gas and other utility services. Modernization of distribution systems was effected by financing the construction of merchandise distribution centers, warehouses, harbor-related facilities and other distribution facilities.

Projects included under the regional development category involved improvement of services and facilities in provincial city areas and the relocation of industries. In this latter area, the Bank endeavored to encourage the relocation of industries to underdeveloped areas, as well as to encourage the establishment of industries to take advantage of particular local resources. Other projects included in regional development were parking facilities, hotels, distribution centers, truck terminals, warehouses, silos, harbor facilities and ferry boats.

Nearly 87% of the loan amount under the category improvement of the quality of life was allocated to various pollution control and prevention projects required by law or necessary to conform to environmental standards. The balance of this project category consisted of loans for safety facilities for public buildings and factories, liquefied natural gas (LNG) processing and storage facilities, urban gas distribution and projects relating to food supply.

Resources and energy projects were related primarily to nuclear power facilities, petroleum industry facilities and facilities for the efficient utilization of resources and energy. Such projects included the construction of nuclear power generating plants. Petroleum industry loans were mainly for the construction of refineries and distribution systems by independent domestic oil companies, for the construction of crude oil storage facilities and for facilities related to the development of the oil resources of Japan's continental shelf. Loans for efficient utilization of resources and energy were mainly for heat conservation and recovery and waste recycling projects.

The Bank has for many years been a significant lender to the ocean shipping industry in order to assist it in meeting Government objectives for the construction of new vessels. During the fiscal year ended March 31, 1976, the Bank continued to make loans to this industry. However, such new loans have significantly declined over the past three years as shipowners in general, affected by the recession following the oil crisis and by continuing excess capacity, have been forced to postpone or cancel planned investment in new vessels, particularly in the tanker segment of the industry. The Bank believes that its loans to that industry, taken as a whole, are adequately protected, and it does not believe that any losses in respect of such loans would be material to the Bank.

The Bank's role in the area of technological development consisted of lending for projects related to leasing domestically produced electronic computers, developing domestic technology and increasing the use of high technology in certain lines of business of the electronic and machinery industries. Specific projects included development of pollution control technology, more efficient automobile engines and other resource conservation technology.

Other general areas to which the Bank's loans were related included decentralization of industrial plants to remedy over-congestion in large cities and promote optimum location of industries, improvement of drug manufacturing processes and development of ocean resources.

Guarantee Operations

The Bank also has the authority to guarantee borrowings incurred for purposes consistent with those of the Bank. The Bank has limited the use of its guarantee power to foreign currency indebtedness incurred by Japanese companies in connection with purchases by them of plant and equipment, prin-

cipally from foreign sources. Guarantees have been issued both to guarantee the payment of principal and interest on borrowings by Japanese companies from foreign banks (principally the Export-Import Bank of the United States) and on long-term credits from foreign suppliers. Of total guarantees outstanding at March 31, 1976, 63% consisted of guarantees issued with respect to indebtedness incurred by five electric power companies, primarily for nuclear power equipment, and 36% consisted of guarantees issued with respect to indebtedness incurred by two air transportation companies. The remaining 1% consisted of the guarantee of borrowings by a company in the computer industry.

The following table sets forth, as of the end of the periods indicated, the amount of guarantees outstanding:

GUARANTEES OUTSTANDING						
Fiscal Years ended March 31,						
1967	1972	1973	1974	1975	1976	
(in billions of yen)					(in millions of dollars)	
¥144	¥270	¥337	¥301	¥302	¥340	\$1,105

The Bank's new guarantee activities vary from year to year depending upon economic factors such as Japan's balance of payments position and the amount of foreign currency funds which may be available to Japanese companies from other sources.

Loan and Guarantee Terms

The JDB Law and the Articles provide that (i) interest rates and guarantee charges shall be fixed "in consideration of the interest rates and guarantee charges of ordinary banks" on a basis such that the Bank's revenues will cover its expenditures and losses and (ii) loans and guarantees shall be extended by the Bank only if the credit is deemed "reliable". Accordingly, the Bank carefully investigates the financial position of each prospective borrower and the technical aspects of the project to be financed, and a loan or guarantee is extended only if there is reasonable assurance of repayment. As a matter of policy, the Bank makes its loans at fixed rates no greater than the rates charged by private financial institutions and in most cases at lower rates.

The Bank itself determines the interest rates, maturities, loan participation percentages, security and other terms on which it lends its funds or extends its guarantees. A maximum interest rate is set from time to time by the Governor of the Bank after taking into consideration general monetary conditions. This rate generally corresponds to the rate for borrowers of the highest credit standing from private banks and other institutions extending long-term loans. The maximum rate has been 9.2% since November 1975. The minimum rate is the Bank's borrowing rate from the Government, which has been 7.5% since December 1975. The actual interest rate charged on a loan depends on the nature of the project to be financed. All of the Bank's loan agreements covering its Japanese currency loans provide that the Bank may change the interest rates payable under such agreements in light of the general money and banking situation. However, the Bank's policy is not to change the rate of interest on its outstanding loans.

The Bank has limited its foreign currency loans to the amount of borrowings the Bank has made from the International Bank for Reconstruction and Development ("World Bank") and has followed the practice of charging the same interest rates as the rates charged by the World Bank to the Bank, plus 0.3% per annum. For its foreign credit guarantees the Bank charges 0.2% or 0.3% per annum on the outstanding principal amount of such guarantees.

The Bank is required by law to make loans with an original maturity of at least one year and, in practice, makes most of its loans with an original maturity of 10 to 15 years. Most of the Bank's lending operations involve the financing of projects in cooperation with private financial institutions, with

the Bank taking the intermediate and longer maturities and private banks taking the shorter maturities. The Bank requires a mortgage or collateral agreement on all of its loans. The Bank's participation in any one project averaged about 35% of the total cost of the project for loans originated during the five fiscal years ended March 31, 1976.

The following table sets forth information concerning the maturities of the Bank's outstanding yen loans:

YEN LOANS OUTSTANDING
(as of March 31, 1976)

<u>Remaining Term to Maturity</u>	<u>(in billions of yen)</u>	<u>(in millions of dollars)</u>	<u>(as % of total)</u>
Less than 5 years	¥ 625	\$ 2,028	18.1%
From 5 to less than 10 years	1,719	5,582	49.8
From 10 to less than 15 years	599	1,944	17.3
From 15 to less than 20 years	473	1,537	13.7
20 years or more	39	126	1.1
Total	<u>¥3,455</u>	<u>\$11,217</u>	<u>100.0%</u>

Reserve for Loan Losses and Loans in Arrears

The Bank provides a reserve for loan losses pursuant to an ordinance of the Minister of Finance. See Note 5 of "Notes to Financial Statements" for a more complete description of the manner in which this provision is determined. As of March 31, 1976, the reserve totaled ¥80,382 million (\$260,981 thousand) or 2.35% of the total loans outstanding at that date.

In cases where borrowers are unable to meet interest, installment or maturity payments on their loans, the Bank, when it considers it to be appropriate, cooperates with the borrowers and other banks in revising the borrowers' business plans and in revising the terms of the Bank's loans in order to improve the borrowers' ability to make repayment. However, when a default occurs in payment of principal or interest, the Bank considers the related loan to be in arrears immediately to the extent of such default. Although the Bank has the right to accelerate the maturity of the outstanding balances of such loans, in practice it has done so only in cases where the borrower has applied for bankruptcy or reorganization in a court proceeding, and accordingly, in ordinary cases, arrearages continue to increase as defaults occur on further payments unless the defaulted loan is subsequently renegotiated or written off.

As of March 31, 1976, principal payments aggregating ¥45,852 million (\$148,870 thousand) were in arrears representing 1.32% of the total loans outstanding. Nearly half of such arrearages reflected defaults in JFY 1975 on secured loans to an ocean shipping borrower which had applied to a court for reorganization. Over half of the remaining arrearages reflected defaults on loans to borrowers in the coal mining industry, and pursuant to special legislation most of these arrearages will be repaid by the Government. Aggregate principal payments in arrears at March 31, 1976 represented 57.0% of the reserve for possible loan losses.

In addition, at March 31, 1976 interest payments aggregating ¥2,776 million (\$9,013 thousand) were in arrears.

The Bank makes final write-offs of loan amounts due only after the exhaustion of all available remedies, including realization on any security. Write-offs are made at fiscal year ends and only with the approval of the Minister of Finance. The amount of loans written off during the five years ended March 31, 1976 was ¥402 million (\$1,305 thousand).

All amounts due to the Bank in foreign currency have been paid in accordance with the loan agreements.

Sources of Funds

The principal sources of funds for the Bank's lending operations are borrowings from the Government, repayments of loans and internal sources. See "Statement of Changes in Financial Position". Outstanding Government loans to the Bank amounted to ¥2,864,003 million (\$9,298,711 thousand) as of March 31, 1976. Within the authorization of the Special Accounts Budget, funds are available from the Government on short notice. The current borrowing rate from the Government is 7.5% (8.3% for certain regional development loans), and the term of such borrowings is 15 years.

Other sources of funds have consisted of borrowings in foreign currencies from the World Bank and issuances of external loan bonds and notes, all of which have been guaranteed by the Government. Borrowings from the World Bank have been reloaned in the currency and principal amount of the borrowing and with the same maturity. The last such borrowing was in 1961, and the outstanding amount of such borrowings as of March 31, 1976 was ¥17,005 million (\$55,211 thousand). There have been six dollar issues (including five registered issues publicly offered in the United States), one Swiss franc issue and one Deutsche mark issue of external loan bonds and notes, and the outstanding amount of such issues as of March 31, 1976 was ¥39,332 million (\$127,701 thousand). See Note 4 of "Notes to Financial Statements".

As indicated under "Purpose and Authority", the Bank is presently authorized to borrow an amount equal to ten times its capital and statutory reserve. As of March 31, 1976, the Bank's capital amounted to ¥233,971 million (\$759,646 thousand). The Bank's statutory reserve has been established under a provision of the JDB Law which requires the Bank to set aside as a reserve out of the net earnings of each fiscal year the greater of: (i) 20% of such earnings or (ii) 0.7% of the Bank's aggregate loans outstanding at the close of the fiscal year (but not in excess of such earnings). As of March 31, 1976, such reserve amounted to ¥208,642 million (\$677,410 thousand). Accordingly, the Bank's borrowing authority amounted to ¥4,426,133 million (\$14,370,563 thousand) compared to total borrowings at that date of ¥2,920,340 million (\$9,481,623 thousand).

PROPERTY

The main office building of the Bank is owned by the Bank and houses its executive offices and other Tokyo operations. The Bank occupies leased space under long-term agreements in nine cities in Japan, where it operates branches and representative offices, and in Washington, D. C., New York City, London and Frankfurt am Main, where it maintains representative offices.

EMPLOYEES

As of March 31, 1976, the Bank employed 1,058 persons of whom 704 were located at the Tokyo office. Over one-half of the Bank's employees are university graduates. Substantially all of the Bank's employees are members of an independent union, which has the exclusive right to represent such employees and the membership of which is limited to such employees.

The Bank provides housing, medical and other facilities, as well as certain welfare benefits, including lump sum retirement allowances.

MANAGEMENT

The Bank is managed by a Governor, a Deputy Governor and eight Executive Directors. In addition to these officers, the Bank has two Auditors and six Counsellors. The Governor, the Deputy Governor and the Auditors are appointed by the Prime Minister for terms of four years. The Executive Directors and Counsellors are appointed by the Governor for terms of four years and two years, respectively. These persons may be reappointed for successive terms of office.

The Governor is the Bank's chief executive officer, and the Deputy Governor is his alternate. The Executive Directors exercise various management functions in accordance with delegations from the Governor. The Governor, the Deputy Governor and the Executive Directors together comprise an administrative and executive board of the Bank, but final authority to make decisions for the Bank in all matters resides exclusively with the Governor.

The Auditors review the business of the Bank. The Counsellors advise the Governor of their views and opinions with regard to the business of the Bank and related matters.

The names of the Governor, the Deputy Governor, the Executive Directors, the Auditors and the Counsellors, and the principal affiliations of the Counsellors, are set forth below:

Governor

Eiichi Yoshioka

Deputy Governor

Takatomo Watanabe

Executive Directors

Jin Komiya	Executive Director in charge of Loan Department IV and Credit Analysis Department
Kiyoto Iwata	Executive Director in charge of Loan Department II and Accounting and Treasury Department
Kazuhiko Nomura	Executive Director in charge of Loan Department for Urban Development and of Library and Information Services
Reitaro Yonemoto	Executive Director in charge of Bureau for Regional Development (comprising Planning Department and Loan Department) and Systems Planning and Computer Services Department
Toshio Maruyama	Executive Director and General Manager of Osaka Branch
Masatoshi Kitamura	Executive Director in charge of Loan Department I and Economic and Industrial Research Department
Kenichi Azuma	Executive Director in charge of Loan Department III and General Services Department
Kenji Atsumi	Executive Director in charge of Programming and Coordination Department, Operations Planning Department and International Department

Auditors

Toshio Fujita

Chuichi Takemura

Counsellors

Shigeo Nagano	Director and Honorary Chairman, Nippon Steel Corporation
Kogoro Uemura	Honorary President, The Federation of Economic Organizations
Seiichi Tobata	Advisor, Institute of Developing Economies
Yoshiya Ariyoshi	Chairman, Nippon Yusen Kaisha, Ltd.
Saburo Okita	President, The Overseas Economic Cooperation Fund
Kiyoshi Nakatsukasa	Advisor, Kanegafuchi Chemical Industry Co., Ltd.

Mr. Yoshioka, who had been President of the Small Business Finance Corporation, and Mr. Watanabe, who had been Executive Director of The Bank of Japan, were appointed Governor and Deputy Governor, respectively, in April 1975. Mr. Azuma has been actively engaged in the business of the Bank since 1951, and Messrs. Komiya, Iwata, Maruyama and Fujita since early 1952. Mr. Nomura, appointed Executive Director in September 1973, had been Director General of the Maritime Safety Agency of the Ministry of Transportation and had held other administrative positions with that Ministry. Mr. Yonemoto, appointed Executive Director in November 1973, had been Chief of the Issue Department at The Bank of Japan and had held other positions with that institution. Mr. Kitamura, appointed Executive Director in August 1974, had been Deputy Director General of the Agency of Natural Resources and Energy at the Ministry of International Trade and Industry and had held other administrative positions with that Ministry. Mr. Atsumi, appointed Executive Director in December 1975, had been Director General of the Mint Bureau of the Ministry of Finance and had held other administrative positions with that Ministry. Mr. Takemura, appointed Auditor of the Bank in October 1974, had previously been Managing Director of the National Public Service Personnel Association, which position he had taken after occupying a series of positions at the Ministry of Finance.

During the fiscal year ended March 31, 1976, the aggregate direct remuneration received from the Bank by the Governor, Deputy Governor, Executive Directors, Auditors and Counsellors as a group was ¥146,007,300 (\$474,050).

BOARD OF AUDIT

The accounts of the Bank are not audited by independent public accountants as that term is understood in the United States but by the Board of Audit. The Board of Audit is a supervisory body created by the Constitution of Japan and organized under the Board of Audit Law of Japan. The final accounts of the Government and of the Government Agencies, which include the Bank, are audited annually by the Board of Audit, and the Audit Reports thereon are submitted to the Diet through the Cabinet. In addition, the JDB Law requires the Bank to prepare financial statements twice a year, to append an opinion of the Auditors of the Bank thereto and to submit them to the Minister of Finance. The Bank makes an annual report and a six month report available to the public.

The Bank's financial statements appearing in the Prospectus were prepared in accordance with accounting principles and procedures required by the JLB Law and regulations thereunder and other accounting principles and procedures generally followed by banks in Japan. Such principles and procedures differ in some respects from generally accepted accounting practices in the United States. The only difference which would materially affect the financial statements is the Bank's practice of recording a provision for possible loan losses based on a percentage of outstanding loans, subject to limitations established by the Minister of Finance. See Note 5 of "Notes to Financial Statements".

REPORT OF BOARD OF AUDIT

MR. EIICHI YOSHIOKA, *Governor*
THE JAPAN DEVELOPMENT BANK
9-1, Otemachi 1-Chome
Chiyoda-ku, Tokyo

We have audited the balance sheet of The Japan Development Bank as of March 31, 1975 and 1976 and the related statement of earnings for the five fiscal years ended March 31, 1976. Our audit was made in accordance with the Board of Audit Law and the regulations thereunder.

The accounting principles and procedures followed by The Japan Development Bank are in accordance with The Japan Development Bank Law and the regulations thereunder and with accounting principles and procedures generally followed by banks in Japan. The balance sheet as of March 31, 1975 and 1976 and the statement of earnings for the five fiscal years ended March 31, 1976 have been prepared in conformity with the aforesaid principles and procedures.

The accompanying balance sheet as of March 31, 1975 and 1976 and statements of earnings and of changes in financial position for the five fiscal years ended March 31, 1976 have been prepared by reclassifying the aforesaid financial statements. We have reviewed the reclassifications made in preparing the accompanying financial statements and, in our opinion, such statements as reclassified present fairly the financial position of The Japan Development Bank as of March 31, 1975 and 1976 and the results of its operations for the five fiscal years ended March 31, 1976 on a consistent basis except for the change in the method of recognizing interest income on loans, with which we concur, as more fully described in Note A to the statement of earnings.

HIDEO KAMADA
Secretary General
BOARD OF AUDIT, JAPAN

Tokyo, Japan 17, 1976

THE JAPAN DEVELOPMENT BANK

BALANCE SHEET

	March 31,		
	1975	1976	
	(in millions of yen)	(in thousands of dollars)	
ASSETS:			
Cash in banks	¥ 1,624	¥ 2,855	\$ 9,270
Government securities, at cost which approximates market (Note 2)	18,111	11,584	37,610
Loans in Japanese currency, including undisbursed balances (Notes 3 and 5)	2,990,779	3,454,922	11,217,279
Loans in foreign currencies (Notes 4 and 5)	19,689	17,005	55,211
Land, buildings and miscellaneous equipment, at cost	7,202	7,918	25,708
Accumulated depreciation	(2,276)	(2,468)	(8,013)
Accrued interest receivable	24,532	28,084	91,182
Other assets	1,139	916	2,974
Unamortized discount on external loan bonds	340	575	1,867
TOTAL ASSETS	<u>¥3,061,140</u>	<u>¥3,521,391</u>	<u>\$11,433,088</u>
LIABILITIES, RESERVES AND CAPITAL:			
Liabilities:			
Long-term borrowings (Note 4):			
From the Government, including borrowings due within one year	¥2,461,054	¥2,864,003	\$ 9,298,711
From the International Bank for Reconstruction and Development, including borrowings due within one year	19,689	17,005	55,211
External loan bonds and notes, including borrowings due within one year	29,793	39,332	127,701
Undisbursed balance of loans in Japanese currency (Note 3)	41,033	47,376	153,818
Accrued interest payable	9,378	22,098	71,747
Payable to the National Treasury (Note 7)	576	1,193	3,874
Other liabilities	6,724	7,389	23,989
TOTAL LIABILITIES	<u>2,568,247</u>	<u>2,998,396</u>	<u>9,735,051</u>
Reserve for possible loan losses (Note 5)	74,583	80,382	260,981
Capital and statutory reserve:			
Capital (Note 6)	233,971	233,971	759,646
Statutory reserve (Note 7)	184,339	208,642	677,410
TOTAL CAPITAL AND STATUTORY RESERVE	<u>418,310</u>	<u>442,613</u>	<u>1,437,056</u>
TOTAL LIABILITIES, RESERVES AND CAPITAL	<u>¥3,061,140</u>	<u>¥3,521,391</u>	<u>\$11,433,088</u>
(Contingent liabilities) (Note 8)	¥ 325,729	¥ 362,801	\$ 1,177,924

See "Notes to Financial Statements".

THE JAPAN DEVELOPMENT BANK
STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fiscal Years ended March 31,					1976 (in thousands of dollars)
	1972	1973	1974	1975	1976	
	(in millions of yen)					
Funds Provided:						
Operations						
Net earnings	¥ 31,484	¥ 25,579	¥ 26,794	¥ 28,332	¥ 32,541	\$ 105,653
Accrued interest income	(17,265)	(19,268)	(23,528)	(24,510)	(27,621)	(89,679)
Collection of accrued interest income	11,975	17,246	19,354	23,509	24,048	78,078
Accrued interest expense	5,948	5,413	5,427	9,378	22,098	71,747
Provision of accrued interest expense	(6,384)	(5,948)	(5,413)	(5,428)	(9,378)	(30,448)
Reserve for possible loan losses	5,014	5,644	7,320	6,859	5,799	18,828
Depreciation and amortization of discount ..	344	312	317	297	312	1,013
Unrealized exchange gain on debt payable in foreign currencies	(3,493)	—	—	—	—	—
Other	64	91	4	(252)	(93)	(302)
Total Funds Provided by Operations ..	27,687	29,069	30,275	38,185	47,706	154,890
Borrowings	336,000	352,500	385,400	462,211	552,198	1,792,850
Loan principal collections	166,082	205,227	230,226	258,752	304,712	989,325
Collection of deferred interest receivable	1,251	1,201	1,201	1,459	1,766	5,734
Other	824	1,017	1,701	1,292	967	3,139
Total Funds Provided	¥531,844	¥589,014	¥648,803	¥761,899	¥907,349	\$2,945,938
Funds Used:						
Disbursement of loans	¥420,655	¥460,019	¥540,903	¥624,479	¥759,828	\$2,466,974
Repayment of borrowings	91,073	103,067	113,380	122,361	142,715	463,360
Special payments to the Government	1,251	1,201	1,201	1,201	1,721	5,588
Payment to the National Treasury	12,931	14,046	8,763	7,977	7,621	24,744
Other	868	401	306	873	760	2,467
Total Funds Used	¥526,778	¥578,734	¥664,553	¥756,891	¥912,645	\$2,963,133
Increase (decrease) in cash and Government securities	¥ 5,066	¥ 10,280	(¥ 15,750)	¥ 5,008	(¥ 5,296)	(\$ 17,195)

See "Notes to Financial Statements".

THE JAPAN DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS

1. Basis of Preparation of Financial Statements

The Bank's official annual financial statements are prepared in conformity with the JDB Law and the regulations thereunder and with accounting principles and procedures generally followed by banks in Japan. Except for the change in the method of recognizing interest income on loans as more fully described in Note A to the "Statement of Earnings", no changes have been made in these accounting principles and procedures.

In the preparation of financial statements for the purposes of the Prospectus, certain amounts have been reclassified and the form of presentation has been changed in certain respects, but no changes have been made in the accounting principles and procedures upon which the official financial statements and underlying records were based.

The principal reclassifications included:

(a) Eliminating the asset account for possible claims for the Bank's guarantees at March 31, 1975 and 1976 of ¥301,615 million and ¥340,408 million, respectively, and the contra liability account for guarantees in identical amounts; the amounts of contingent liability are set forth in Note 8.

(b) Transferring the balance sheet account for net profits in the following periods to "Statutory Reserve" and "Payable to the National Treasury" and offsetting such payables against the asset account for interim payments to the National Treasury as follows:

	Net Profit	Statutory Reserve	Payable to the National Treasury
	(in millions of yen)		
Year ended March 31, 1975	¥28,332	¥21,073	¥7,259
Year ended March 31, 1976	32,541	24,303	8,238

(c) Offsetting accounts related to deferred interest receivable from shipping companies with accounts related to the amounts payable to the Government and thereby reducing other assets and other liabilities by ¥47,293 million at March 31, 1975 and by ¥43,806 million at March 31, 1976.

(d) Eliminating deferred interest currently receivable from shipping companies and payable to the Government from interest income and expense.

Dollar amounts shown in the financial statements have been included solely for convenience and are stated, as a matter of arithmetical translation only, at the rate of ¥308 to \$1.00.

2. Government Securities

The weighted average interest rate on the Bank's Government securities was 6.84% at March 31, 1976. The interest on Government bonds is credited to earnings as "Income on Government Securities" on a cash basis. The effect of the departure from the accrual basis is not material. Under the JDB Law, the Bank may not make use of surplus cash funds except for the purchase of Government bonds, deposits with the Trust Fund Bureau and deposits with The Bank of Japan.

3. Loans

Loans in Japanese currency include undisbursed funds in an amount identical to that shown in "Undisbursed balance of loans in Japanese currency" included in liabilities.

THE JAPAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS—(Continued)

4. Long-term Borrowings

Long-term borrowings comprise:

	March 31,		
	1975 (in millions of yen)	1976 (in millions of yen)	(in thousands of dollars)
Long-term borrowings from the Government:			
Trust Fund Bureau—			
6.2% loans due 1987	¥ 337,500	¥ 337,500	\$1,095,779
6.5% loans due 1976 to 1988	1,319,908	1,183,451	3,842,373
6.75% loans due 1988	115,000	115,000	373,377
7.5% loans due 1989 to 1990	366,200	683,000	2,217,533
8.0% loans due 1990	243,200	394,600	1,281,169
8.2% loans due 1990	18,700	18,700	60,714
8.3% loans due 1991	—	43,500	141,234
8.6% loans due 1990	—	29,100	94,480
8.7% loans due 1990	44,000	44,000	142,857
Industrial Investment Special Account—			
4% loans due 1975	22	—	—
6.5% loans due 1983	4,700	4,700	15,260
6.7% loans due 1979 to 1980	6,156	5,492	17,831
7.5% loans due 1983	5,668	4,960	16,104
Total borrowings from the Government	<u>2,461,054</u>	<u>2,864,003</u>	<u>9,298,711</u>
Guaranteed long-term borrowings from the International Bank for Reconstruction and Development ("World Bank"), 5¾%-5¼% obligations due 1981 to 1983:			
U. S. dollars	9,893	9,417	30,575
Deutsche marks	3,818	2,137	6,938
Swiss francs	1,155	1,155	3,750
Indian rupees	1,893	1,893	6,146
Other foreign currencies	2,930	2,403	7,802
Total borrowings from the World Bank	<u>19,689</u>	<u>17,005</u>	<u>55,211</u>
Guaranteed external loan bonds and notes:			
Dollar obligations			
6% bonds due 1976	1,097	730	2,371
6% bonds due 1977	1,631	1,235	4,009
6% bonds due 1978	2,355	1,846	5,993
5¾% bonds due 1979	3,009	2,555	8,296
8½% notes due 1980	14,260	14,260	46,298
6½% bonds due 1980	3,464	3,009	9,771
Swiss franc obligation			
6¾% bonds due 1985	3,977	3,977	12,912
Deutsche mark obligation			
7¼% bond due 1983	—	11,720	38,051
Total external loan bonds and notes ..	<u>29,793</u>	<u>39,332</u>	<u>127,701</u>
Total long-term borrowings	<u>¥2,510,536</u>	<u>¥2,920,340</u>	<u>\$9,481,623</u>

THE JAPAN DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS—(Continued)

The aggregate annual maturities and sinking fund requirements of long-term borrowings outstanding as of March 31, 1976 were as follows:

<u>Fiscal Years ending March 31,</u>	<u>Japanese currency</u>	<u>Foreign currencies</u> (in millions of yen)	<u>Total</u>
1977	¥ 162,098	¥ 4,584	¥ 166,682
1978	212,677	5,220	217,897
1979	245,998	3,147	249,145
1980	277,936	18,253	296,189
1981	269,966	3,654	273,620
1982-1991	1,695,328	21,599	1,716,927

All borrowings from the International Bank for Reconstruction and Development are guaranteed by the Government and are repayable in foreign currencies. These borrowings have been concurrently loaned to Japanese companies in the same foreign currencies, and any profit or loss resulting from changes in the exchange rates of foreign currencies is for the account of such companies.

The external loan bonds and notes are also guaranteed by the Government and are repayable in foreign currencies. The proceeds from these bonds and notes were converted into yen and loaned to Japanese companies. Any profit or loss resulting from changes in the exchange rates of foreign currencies is for the account of the Bank. The Bank has followed the practice of initially recording foreign currency obligations at the exchange rate in effect at the time of conversion and has made adjustments, by a charge or credit to net earnings, for changes in the central exchange rates. Following the establishment of the new central rate of ¥308=\$1.00, which was communicated to the IMF on December 19, 1971, the Bank adjusted its foreign currency obligations contracted for prior to October 1, 1972 to the Telegraphic Transfer Selling rates in effect on March 31, 1972. Such rate for dollars on that date was ¥304.9=\$1.00. For borrowings contracted for on and after October 1, 1972 the Telegraphic Transfer Selling rate in effect on the date of each contract has been used to express yen amounts.

5. Reserve for Possible Loan Losses

A provision for possible loan losses is made in each fiscal year in order to adjust the reserve for possible loan losses to an amount determined to be adequate by the Bank, subject to limitations established by an ordinance of the Minister of Finance. Until April 1, 1975, the Ministry ordinance permitted the Bank to hold a reserve for possible loan losses in an amount up to 3% of the outstanding loans (excluding undisbursed loans) at the end of each fiscal year. For the fiscal year ended March 31, 1976, the Ministry ordinance was revised so that the maximum permissible reserve was an amount equal to (i) the amount of the reserve as of March 31, 1975 less loans written off during the fiscal year ended March 31, 1976 plus (ii) 1.8% of the increase in outstanding loans (excluding undisbursed loans) during the fiscal year. For the fiscal year ending March 31, 1977, the 1.8% factor will be reduced to 1.6%. The amount of the reserve at fiscal year end as a percentage of loans then outstanding for each of the five years ended March 31, 1976 was as follows:

<u>March 31,</u>	
1972	2.71%
1973	2.65
1974	2.62
1975	2.51
1976	2.35

THE JAPAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS—(Continued)

Loans are written off at the end of a fiscal year with the approval of the Minister of Finance and for the five years ended March 31, 1976 were as follows:

Fiscal Years ended March 31,	(in millions of yen)
1972	¥ 2
1973	—
1974	—
1975	400
1976	—

6. Capital

As set forth in the JDB Law, the capital of the Bank is ¥233,971 million. The Government is the sole owner of the equity interest, which is not evidenced by documents such as stock certificates, but is evidenced at the Registration Office of the Legal Affairs Bureau of Japan.

Capital has been provided as follows:

	(in millions of yen)
Cash contributions	¥ 30,000
Contributions of other assets, principally loans in connection with taking over the operations of:	
The Reconversion Finance Bank	85,220
United States Aid Counterpart Fund Special Account	132,804
Less—Reduction in connection with the transfer of certain operations to the Agriculture, Forestry and Fishery Finance Corporation, the Small Business Finance Corporation and Electric Power Development Company	(14,053)
Total Capital	¥233,971

7. Statutory Reserve

In accordance with the provisions of the JDB Law, the Bank each year must provide out of net earnings, as a reserve, the larger of (i) an amount equivalent to 20% of net earnings or (ii) an amount equivalent to 0.7% of loans outstanding at the end of the fiscal year (if this amount is in excess of the amount of net earnings for the year, then the amount of such net earnings). The reserve so provided may only be used to cover net losses. The balance of the net earnings remaining each year, after provision for this reserve, is to be paid to the National Treasury of Japan by May 31 of the following fiscal year. Interim payments are provided for under the Cabinet Order. The account titled "Payable to the National Treasury" represents the amount payable to the National Treasury for the fiscal year

THE JAPAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS—(Concluded)

less the semi-annual interim payment made during the fiscal year and is to be settled on May 31 of the following fiscal year. Except for ¥3,730 million taken over from the Reconversion Finance Bank, the Statutory Reserve represents additions of reserved net earnings.

8. Contingent Liabilities

Contingent liabilities consist of outstanding guarantees of foreign currency indebtedness, principally in dollars, incurred by Japanese companies, and special payments to the Government.

(a) The outstanding amounts of guaranteed obligations were ¥301,615 million and ¥340,408 million (*\$1,105,219 thousand*) at March 31, 1975 and 1976, respectively, and will mature as follows:

Fiscal Years ending March 31,	(in millions of yen)
1977	¥ 33,865
1978	41,939
1979	39,824
1980	39,369
1981	29,667
thereafter	155,744
Total	¥340,408

Translations of foreign currency guarantee amounts into yen amounts on contracts entered into prior to October 1, 1972 have been made at ¥304.9=\$1.00, the Telegraphic Transfer Selling rate on March 31, 1972. On and after October 1, 1972 the Telegraphic Transfer Selling rate in effect on the date of each contract has been used to express yen amounts.

(b) The outstanding amounts of special payments to the Government were ¥24,114 million and ¥22,393 million (*\$72,705 thousand*) at March 31, 1975 and 1976, respectively. Under the provisions of the Law for Temporary Measures Concerning Consolidation of the Shipping Industry of July 1, 1963, qualifying ocean shipping companies were permitted to defer the payment of interest (accruing during a period of five years from the date of qualification) on the Bank's loans made prior to March 31, 1962. In lieu thereof, the Bank received payments from the Government in an amount equivalent to the deferred interest. Deferred interest unpaid at the end of the fifth year by the qualifying ocean shipping companies was payable annually to the Bank during the succeeding fifteen years. The Bank is required to pay to the Government the amount equivalent to the deferred interest due and payable to the Bank, which the Bank carries as "Special payments to the Government".

JAPAN

GENERAL

Area, Location and Population

The Japanese Archipelago consists of about 3,900 islands which form part of a long chain of mountainous islands in the western Pacific. The four main islands (Hokkaido, Honshu, Kyushu and Shikoku) cover the same approximate range of latitude and the same general range of climate as the east coast of the United States north of Florida. The total area of Japan is approximately 146,000 square miles, or slightly less than that of California and about 4% of that of the United States. It is bordered by the Sea of Japan to the west and north and by the Pacific Ocean to the east and south.

Japan, with a total population of 112 million, has one of the highest population densities in the world. Approximately 23% of the total population of Japan is concentrated in the three metropolitan areas of Tokyo, Osaka and Nagoya. Japan's average annual rate of population increase during the years 1965-1974 was 1.2% as compared with 1.0%, 0.6% and 0.8% for the United States, the Federal Republic of Germany and France, respectively, as set forth in Japanese Government statistics and *The Demographic Yearbook, 1974*, published by the United Nations.

Government

Under Japan's present Constitution, which became effective on May 3, 1947, legislative power is vested in the Diet, which consists of a House of Representatives having 491 members and a House of Councillors having 252 members. Members of both Houses are elected by direct universal suffrage. The executive power is vested in the Cabinet consisting of a Prime Minister, appointed from among the members of the Diet by the Emperor upon designation by the Diet, and other Ministers, a majority of whom must be members of the Diet, appointed by the Prime Minister. The judicial power is vested in the Supreme Court and such lower courts as are established by law. In general, one District Court has been established in each prefecture. Appeals from District Court decisions are taken to a regional High Court, of which there are eight, and, within certain limits, appeals from the decisions of a High Court may be made to the Supreme Court.

Japan's prefectures, cities, towns and villages have a certain degree of local autonomy through popularly elected legislative bodies and chief executives (the prefectural governors and, in the case of cities, towns and villages, the mayors). The central government exercises its influence on local governments indirectly through financial aid and prescription of standards of local administration.

Political Parties

The five major political parties represented in the Diet are the ruling Liberal Democratic Party, the Japan Socialist Party (the largest opposition party), the Japan Communist Party, the Komeito (Clean

Government Party) and the Japan Democratic Socialist Party. Japan has been governed nationally by conservative political parties for more than 25 years. The ruling Liberal Democratic Party has remained in power nationally since its formation in 1955, although its percentage of the popular vote has declined in recent national elections.

The present Cabinet has been headed since December 9, 1974 by Prime Minister Takeo Miki who has served as a member of the Diet continuously since 1937.

Members of the House of Representatives are elected for terms of four years unless the House of Representatives is dissolved prior to the expiration of their full elected terms. The present term of the members of the House of Representatives expires in December 1976. Members of the House of Councillors are elected for terms of six years with one half of the membership being elected every three years.

The following table compares the results of the most recent general elections for the House of Representatives and for the House of Councillors with results of the elections for those Houses in 1963 and 1965, respectively. Intervening elections were held for the House of Representatives in 1967 and 1969 and for the House of Councillors in 1968 and 1971. The table also shows the number of seats held by each party on July 1, 1976.

	House of Representatives					House of Councillors				
	November 1963	December 1972	Seats held July 1, 1976		July 1965	July 1974	Seats held July 1, 1976			
(percentages of the popular vote and numbers of members)										
Liberal Democratic Party	54.7%	294	46.8%	284	269	45.7%	141	41.9%	127	128
Japan Socialist Party	29.0	144	21.9	118	114	28.1	73	20.6	62	62
Japan Communist Party	4.0	5	10.5	39(a)	39(a)	5.7	4	10.7	20	20
Komeito (Clean Government Party)	—	—	8.5	29	30	9.4	20	12.3	24	24
Japan Democratic Socialist Party	7.4	23	7.0	20	19	6.0	7	5.2	10	10
Others	4.9	1	5.3	1	6	5.1	5	9.3	9	8
Total	<u>100.0%</u>	<u>467</u>	<u>100.0%</u>	<u>491</u>	<u>477(b)</u>	<u>100.0%</u>	<u>250</u>	<u>100.0%</u>	<u>252</u>	<u>252</u>

(a) Includes one allied member.

(b) On July 1, 1976, there were fourteen vacancies.

Treaty Relationships

Japan is a party to many important treaties. Since the end of World War II, the Treaty of Peace with Japan has been ratified by Japan, the United States and 43 other countries. Diplomatic relations now also exist with the Soviet Union, the Republic of Korea and the People's Republic of China. Japan and the United States are parties to a mutual security treaty.

In 1955, Japan became a party to the General Agreement on Tariffs and Trade. As a major trading nation, Japan has also entered into many treaties and agreements concerning commerce and trade and conventions for the avoidance of double taxation.

International Organizations

Japan is a member of the United Nations and other international organizations, including the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Asian Development Bank,

the African Development Fund and the Organisation for Economic Co-operation and Development, and Japan will also become a member of the Inter-American Development Bank on July 9, 1976. See "Japan Public Debt—Subscriptions to International Financial Organizations".

THE ECONOMY

General

Japan has a highly developed and diversified economy. Over the past 25 years, Japan experienced significant economic development and during the ten and five year periods ending JFY 1975, Japan's gross national product at constant prices increased at compound annual growth rates of 8.1% and 4.7%, respectively. The increase in gross national product was sustained by a high level of savings and investment in both the private and public sectors. The percentage of gross domestic investment to gross national product averaged 37% during the ten year period ending JFY 1975. Savings by individuals, expressed as a percentage of personal disposable income, averaged approximately 21% during the ten year period ending JFY 1974.

In 1973 and 1974, Japan's economy was beset by a number of adverse factors including increases in costs of imported materials (particularly oil), shortages of supply and excess demand. In order to cope with the resulting high rate of inflation, the Government pursued fiscal and monetary policies designed to restrain total demand and sought to maintain price stability through legislation and administrative guidance. Although inflation has moderated, Japan's growth trend was reversed and gross national product at constant prices decreased by 0.2% in JFY 1974.

Recessionary conditions in Japan caused the Government in 1975 to adopt a series of budgetary, monetary and other measures designed to initiate a moderate economic recovery. As these measures began to take effect, the economic decline was halted in the first quarter of 1975. There is evidence of an economic recovery which has recently begun to increase in pace, and in JFY 1975 gross national product at constant prices registered a 3.1% increase over JFY 1974.

Role of Government in the Economy

Japan's economy is a market economy in which industry and commerce are predominantly privately owned and operated. However, ever since the beginning of Japan's industrialization approximately a hundred years ago, the Government has continued to be highly involved in establishing and meeting objectives for developing the economy and improving the standard of living of its people. This involvement can be attributed in part to the need to allocate effectively the limited supply of capital and, in view of Japan's dependence upon foreign sources of raw materials, the need to direct trade and manage foreign exchange reserves.

In order to achieve its economic objectives, the Government has generally relied on providing the prerequisite business environment and administrative guidance. The homogeneity of Japanese society and the tendency of Japanese people to reach important decisions by consensus have generally resulted in agreement between the Government and the private sector on major economic policy matters. Consensus arises from intense and sustained communication and mutual recognition of the importance of steady and sound economic growth. The agencies of the Government primarily concerned with economic policy and its implementation are the Economic Planning Agency, the Ministry of Finance and the Ministry of International Trade and Industry. The Bank of Japan, Japan's central bank, also acts in this field.

The Economic Planning Agency is responsible for formulating basic policy and preparing national economic programs. Overall direction of the economy is exercised by the Ministry of Finance by means of fiscal policy in cooperation with the respective ministries and by means of monetary policy in association with The Bank of Japan. The Ministry of International Trade and Industry, as well as other ministries such as the Ministry of Agriculture and Forestry and the Ministry of Construction, develop special industry objectives within the broad economic framework. In order to provide a favorable environment for the development of specific industries, the Government often uses administrative measures as well as fiscal measures such as loans from Government financial institutions.

Gross National Product and National Income

Data pertaining to gross national product for JFY 1970 through JFY 1975 are set forth in the following table.

Gross National Product

	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975 Provisional	Percentages of JFY 1975 GNP
(in billions of yen)							
Total Consumption							
Private	¥37,521	¥42,459	¥49,082	¥ 59,361	¥ 73,449	¥ 84,772	56.9%
Public	6,029	7,130	8,440	10,411	14,172	16,609	11.1
	43,550	49,589	57,522	69,772	87,621	101,381	68.0
Total Gross Investment							
Private							
Producers' Durable Equipment	14,495	14,908	16,724	22,387	22,820	20,454	13.7
Addition to Business Inventories	3,057	1,957	2,021	4,009	3,861	1,554	1.0
Residential Construction	4,828	5,215	7,038	9,878	9,667	11,044	7.4
	22,380	22,080	25,782	36,274	36,348	33,052	22.1
Public	6,188	7,668	9,480	10,595	12,920	14,504	9.7
	28,568	29,748	35,262	46,869	49,268	47,556	31.8
Surplus of the Nation on Current Account							
Exports of Goods and Services and Other Receipts from Abroad	8,657	10,001	10,728	13,178	20,563	20,778	13.9
Less: Imports of Goods and Services and Other Payments Abroad	(7,729)	(7,761)	(8,783)	(14,215)	(21,112)	(20,623)	(13.8)
Surplus of the Nation on Current Account	928	2,240	1,945	(1,036)	(549)	155	0.1
Gross National Product at Current Prices	¥73,046	¥81,577	¥94,729	¥115,605	¥136,339	¥149,092	100.0%
Gross National Product at Constant Prices (a)	¥72,144	¥77,400	¥84,981	¥ 90,435	¥ 90,268	¥ 93,057	
Percentage Increase of GNP Over Previous Year							
At Current Prices	17.3%	11.7%	16.1%	22.0%	17.9%	9.4%	
At Constant Prices (a)	10.4	7.3	9.8	6.4	(0.2)	3.1	
Deflator	6.3	4.1	5.8	14.7	18.2	6.1	

(a) Constant prices are based on calendar year 1970.

Source: Economic Planning Agency, *Annual Report on National Income Statistics*.

The following table sets forth the proportions of national income (computed by subtracting depreciation and indirect taxes from gross national product and adding Government subsidies) contributed by major sectors of the economy for JFY 1970 through JFY 1974.

National Income by Sectors					
	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974
Agriculture, Forestry and Fishing	7.4%	6.5%	6.7%	6.8%	6.3%
Industry					
Mining	0.6	0.6	0.5	0.4	0.6
Construction	7.5	7.9	8.3	8.6	8.5
Manufacturing	30.4	29.5	28.3	27.6	28.2
Total	38.5	38.0	37.1	36.6	37.3
Services and Other					
Wholesale and Retail Trade	18.1	18.5	18.0	18.0	19.8
Finance, Insurance and Real Estate ...	11.3	11.1	12.1	13.4	11.4
Transportation, Communication and Other Public Utilities	8.0	8.0	7.8	7.1	6.6
Services	13.3	13.9	14.0	13.9	14.1
Public Administration	3.7	4.1	4.2	4.2	4.8
Total	54.4	55.6	56.1	56.6	56.7
Net Income from Abroad	(0.3)	(0.1)	(0.1)	(0.0)	(0.3)
Total	100.0%	100.0%	100.0%	100.0%	100.0%
(in billions of yen)					
National Income at Current Prices	¥59,141	¥65,898	¥76,310	¥91,335	¥112,757
Percentage Increase in National Income at Current Prices over the Preceding Fiscal Year	18.7%	11.4%	15.8%	20.3%	22.8%

Source: Economic Planning Agency, *Annual Report on National Income Statistics*.

Industry

Industry in Japan is almost entirely privately owned and operated. The principal exceptions are the main part of the railroad system, the telegraph and telephone system and the tobacco and salt monopolies, all of which are operated by public corporations wholly-owned by the Government. In addition, the major airline and a corporation which constructs large-scale hydro-electric projects are partly owned by the Government.

The table below sets forth various average indices of industrial production for specified periods:

Average Indices of Industrial Production						
	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975
(calendar year 1970 = 100)						
All Industry (except public utilities)	101.4	103.4	113.9	129.3	117.1	112.9
Capital Goods	101.9	100.1	110.4	130.4	123.9	111.7
Construction Materials	100.7	102.3	117.1	133.0	110.7	104.5
Durable Consumer Goods	101.2	109.9	123.4	138.0	130.1	136.3
Non-durable Consumer Goods	101.4	102.1	105.7	116.8	113.1	114.4
Producers' Goods	101.3	104.0	115.3	129.8	113.1	109.5

Source: Ministry of International Trade and Industry, *Industrial Statistics Monthly*.

Manufacturing. Japan is a leading manufacturing nation. Its economy is characterized by large-scale, capital-intensive industries and products in which the relative content of imported raw materials is low and the relative content of value added through manufacture is high. Japan is noted for the manufacture of such products as automobiles, electric and electronic equipment, precision optical goods and ships.

Mining. Japan is very heavily dependent on imports of basic extracted raw materials. In JFY 1974, 75% of Japan's overall coal requirements and 99% of iron ore requirements were imported. Import percentages for other extracted raw materials were 93% for copper, 73% for lead, 67% for zinc, 100% for bauxite and 100% for nickel. See "Energy and Electric Power" for a discussion of Japan's dependence on imports of oil.

Transportation. Domestic transportation is provided by railways, coastal shipping, motor vehicles and airlines, with a marked increase during the past ten years in motor vehicle transportation. Of total freight transported in JFY 1974, railways accounted for 14.0%, coastal shipping for 51.2% and motor vehicles for 34.8%. Of total passenger transportation in JFY 1974, railways accounted for 46.7%, motor vehicles (including buses) for 49.6% and domestic airlines for 2.5%.

Japan's extensive railway system is generally considered to be excellent, and its national road system is continually being improved. Japan's merchant marine fleet is one of the largest in the world and has been expanded from 12.0 million gross tons in July 1965 to 39.7 million in July 1975.

Energy and Electric Power

The following table sets forth total primary energy supplied and total energy consumed and the major sources of primary energy expressed as a percentage of total primary energy supplied for JFY 1970-1974.

JFY	Total Primary Energy Supplied (tens of trillions of calories)	Sources of Primary Energy Supplied				Total Energy Consumed (tens of trillions of calories)
		Oil	Coal	Hydro-Electric	Other	
1970	310,468	70.8%	20.7%	6.3%	2.2%	284,091
1971	320,611	73.5	17.5	6.7	2.3	297,385
1972	344,338	74.9	16.6	6.3	2.2	321,509
1973	382,576	77.6	15.5	4.6	2.3	354,051
1974	383,529	74.4	16.6	5.4	3.6	338,721

Source: Agency of Natural Resources and Energy, *Energy Statistics* (not published in English).

Since Japan's production and reserves of oil are nominal, over 99% of its crude oil requirements in JFY 1974 were imported, with the principal source being the Middle East. The following table sets forth information regarding imports of crude oil:

	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975
Volume of imports (millions of bbls/day)	3.5	3.9	4.4	5.0	4.8	4.5
Cost of imports (c.i.f. in millions of dollars)	\$2,372	\$3,288	\$4,154	\$8,673	\$19,995	\$19,756
Average price (c.i.f. in dollars per barrel)	\$ 1.84	\$ 2.30	\$ 2.57	\$ 4.75	\$ 11.51	\$ 12.05

Source: Ministry of Finance, *The Summary Report of Trade of Japan*.

Because of Japan's dependence upon imported oil, any substantial increases in oil prices, such as those in the fall of 1973, have a large negative impact on Japan's economy and its balance of payments. The Government is considering various measures to promote energy conservation and to reduce Japan's dependence on imported crude oil.

In 1974, Japan ranked third among the world's nations (after the United States and the Soviet Union) in the generation of electricity. In addition, Japan has one of the highest rates of household electrification in the world. Total generating capacity and electric power generation for JFY 1970 through JFY 1974 are set forth in the table below.

	JFY 1970	JFY 1971	JFY 1972	JFY 1973	JFY 1974
	(megawatts)				
Generating capacity (a):					
Hydro-electric	19,994	20,176	20,734	22,589	23,546
Fossil Fuel	46,932	54,964	62,726	70,617	76,755
Nuclear	1,336	1,336	1,836	2,296	3,905
Total	<u>68,262</u>	<u>76,475</u>	<u>85,296</u>	<u>95,502</u>	<u>104,207</u>
	(thousands of megawatt hours)				
Electric power generation:					
Hydro-electric	80,090	86,753	87,923	71,678	84,780
Fossil Fuel	274,868	290,804	331,074	388,902	354,562
Nuclear	4,581	8,010	9,480	9,707	19,699
Total	<u>359,539</u>	<u>385,567</u>	<u>428,477</u>	<u>470,287</u>	<u>459,041</u>

(a) At end of fiscal year.

Agriculture, Forestry and Fishing

While only one-fifth of its total land area is arable, Japan has a high overall degree of self-sufficiency in food for human consumption. In the production of rice, which is a staple food grain of the Japanese people, Japan has achieved almost complete self-sufficiency. However, growing demands for a variety of food items have caused a decline in overall self-sufficiency in food for human consumption from 81% in JFY 1965 to about 72% in JFY 1974. The principal imported agricultural foodstuffs are wheat and sugar. Japan also imports all of its requirements of cotton and a large portion of its requirements of soybeans and maize.

An estimated two-thirds of Japan's area is forested and produces lumber of good quality. Nevertheless, fast growing demand for wood and wood products, particularly for use in construction and for pulp and paper, has resulted in a steady increase in imports. Imports of such products increased from 26.3% of total consumption in 1965 to 64.8% in 1974.

Japan is one of the world's leading fishing nations and has a high per capita fish consumption. The Japanese deep-sea fishing industry operates on a world-wide basis but is subject to extensive restrictions, generally imposed by bilateral agreements with other countries.

Price Indices

Information concerning changes in Japan's wholesale and consumer price indices is set forth below.

JFY	Wholesale Index (a)		Consumer Index (b)	
	Index (c)	Annual % Change	Index (c)	Annual % Change
1971	99.1	(0.8)%	107.2	5.7%
1972	102.3	3.2	112.8	5.2
1973	125.4	22.6	131.0	16.1
1974	154.8	23.4	159.6	21.8
1975	158.1	2.1	176.2	10.4

(a) All commodities. Source: The Bank of Japan, *Wholesale Price Index*.

(b) Source: Office of the Prime Minister, *Consumer Price Index*.

(c) Calendar year 1970=100. Indices calculated on the basis of monthly averages.

The increases in wholesale and consumer prices in JFY 1973 and 1974 were due in part to the general shortage of supply in relation to demand and to the unprecedented increase in imported oil prices.

Labor

Japan's employed population was estimated to be 51.4 million at the end of 1975. Of this number, 10% was employed in agriculture, forestry and fishing, 37% in mining, construction and manufacturing industries and 53% in trade, finance, transportation and other service industries. The contributions made to the JFY 1974 national income by these industries were 6%, 37% and 57%, respectively.

The unemployment rate in Japan averaged 1.5% during the JFY 1971-1975 period and was 2.0% in April 1976. However, Japan's low rate of unemployment results primarily from the custom of Japanese companies not to reduce their work forces during periods of recession and for workers to remain with a single company for their entire careers. The ratio of the number of job openings to the number of job applicants, which averaged 1.14 during the JFY 1971-1975 period and was 0.64 in May 1976, is also used in Japan as an indicator of the availability of employment.

In recent years, wage increases have been granted by manufacturing and other industries at rates which have exceeded gains in labor productivity. Substantial wage increases occurring in JFY 1974 were accompanied by a decline in productivity. Because it is not customary for companies to reduce their work forces during recessionary periods, productivity tends to decline with industrial production.

The following table sets forth information regarding the wage and productivity indices for the indicated periods:

JFY	Wage Index(a)		Productivity Index(b)	
	Index(c)	Annual % Change	Index(c)	Annual % Change
1970	103.1	18.1%	101.3	8.6%
1971	117.5	14.0	106.2	4.8
1972	136.8	16.4	121.5	14.4
1973	166.5	21.7	142.7	17.4
1974	214.4	28.8	135.6	(5.0)
1975	240.4	12.1	136.7	0.8

(a) Source: Ministry of Labor, *Monthly Labor Statistics*.

(b) Source: Japan Productivity Center, *Quarterly Journal of Productivity*.

(c) Calendar year 1970=100. Indices calculated on the basis of monthly averages.

Education, Social Welfare and Housing

Japan has traditionally maintained a high level of education which, since World War II, has been reflected in substantial expansion of its educational facilities. Education is compulsory between the ages of 6 and 15, and the proportion of students entering senior high school thereafter has risen from 71% in 1965 to 92% in 1975. The proportion of senior high school graduates who enroll in institutions of higher education has risen from 25% in 1965 to 34% in 1975. In the JFY 1976 budget, 12% of expenditures are allocated to education and science.

Japan has been expanding budget expenditures for a social welfare program providing old age pensions for the entire working population (including the self-employed), national health insurance and unemployment insurance. In the JFY 1976 budget, 19.8% of expenditures are allocated to such programs (excluding pensions for veterans and Government officials). Government sponsored pension and social security programs are thus generally as extensive in scope as those of most other developed countries. However, Government social welfare expenditure as a percent of national income is relatively low because the percentage of older persons in the population is low and the pension system is not fully developed.

Since 1956, the Ministry of Construction has established Five Year Plans for the construction of housing, including construction by private industry. During the first four years (JFY 1971-1974) of the second Five Year Plan of Housing Construction, approximately 6.77 million new housing units were built, of which 1.39 million were built in JFY 1974. The central and local governments provide assistance in the form of loans and subsidies for the construction of housing, including grants for low income housing.

FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Trade*

Overseas trade is vital to Japan's economy. For the five year period ended December 31, 1975, exports and imports averaged approximately 10.5% and 10.3% of gross national product, respectively. Since the latter part of 1973, Japan's terms of trade deteriorated, primarily as a result of increases in the price of oil.

Foreign Trade of Japan

	Value Index(a)		Volume Index(a)		Unit Value Index(a)		Terms of Trade(b)	Japan as % of World Trade(a)	
	Exports	Imports	Exports	Imports	Exports	Imports		Exports	Imports
1971	124.3	104.4	120.2	99.9	103.4	104.5	98.9	7.6%	6.0%
1972	148.0	124.4	128.5	112.9	115.2	110.2	104.5	7.6	6.1
1973	191.2	202.9	134.9	144.5	141.7	140.4	100.9	7.1	7.3
1974	287.5	329.0	158.0	141.2	182.0	233.0	78.1	7.2	8.1
1975	288.6	306.5	161.2	123.5	179.0	248.2	72.1	—	—

(a) Statistics upon which the indices are based are expressed in dollars and have been translated at the rate of ¥360 to the dollar for periods prior to August 1971, at the rate of ¥308 to the dollar for the period from January 1972 to January 1973 and on a floating rate basis for all other periods. Calendar year 1970=100.

(b) Unit value of exports divided by unit value of imports.

Source: Ministry of Finance, *The Summary Report of Trade of Japan*; International Monetary Fund, *International Financial Statistics*.

* In this section exports are stated on an f.o.b. basis and imports on a c.i.f. basis. Monetary figures are based on actual movements of goods as calculated by the Ministry of Finance. This method of computation differs from that used in determining balance of payments, in which both exports and imports are stated on an f.o.b. basis.

Composition of Japan's Exports and Imports(a)

	1971		1972		1973		1974		1975	
	(dollar amounts in millions)									
Japan's Exports										
Textiles	\$ 2,772	12%	\$ 2,926	10%	\$ 3,279	9%	\$ 4,065	7%	\$ 3,719	
Metal & Metal Products	4,570	19	4,871	17	6,821	18	13,691	25	12,518	2
Machinery & Equipment:										
Ships	1,849	8	2,399	8	3,819	10	5,600	10	5,998	1
Motor Vehicles	2,373	10	2,965	10	3,612	10	5,227	9	6,190	1
Radio Receivers	791	3	1,033	4	1,243	3	1,359	2	1,324	
Motorcycles	612	2	830	3	855	2	1,394	3	1,157	
Others	6,249	26	8,150	29	10,835	30	14,311	26	15,335	2
Total	<u>11,874</u>	<u>49</u>	<u>15,377</u>	<u>54</u>	<u>20,365</u>	<u>55</u>	<u>27,891</u>	<u>50</u>	<u>30,004</u>	<u>5</u>
Chemicals	1,486	6	1,784	6	2,147	6	4,059	7	3,889	
Foods & Beverages	679	3	666	2	841	2	846	2	760	
Other Exports	2,638	11	2,967	11	3,477	10	4,984	9	4,863	
Total	<u>\$24,019</u>	<u>100%</u>	<u>\$28,591</u>	<u>100%</u>	<u>\$36,930</u>	<u>100%</u>	<u>\$55,536</u>	<u>100%</u>	<u>\$55,753</u>	<u>100%</u>
Japan's Imports										
Foods & Beverages	\$ 2,917	15%	\$ 3,607	15%	\$ 6,009	16%	\$ 8,122	13%	\$ 8,815	1
Textile Materials	958	5	1,348	6	2,187	6	1,861	5	1,524	
Chemicals	999	5	1,148	5	1,865	5	2,668	4	2,057	
Mineral Fuels:										
Petroleum	3,048	15	3,927	17	6,000	16	18,898	30	19,644	3
Others	1,703	9	1,788	7	2,327	6	5,997	10	5,997	1
Total	<u>4,751</u>	<u>24</u>	<u>5,715</u>	<u>24</u>	<u>8,327</u>	<u>22</u>	<u>24,895</u>	<u>40</u>	<u>25,641</u>	<u>4</u>
Metal Ores & Scrap	2,527	13	2,488	11	4,033	10	5,328	9	4,417	
Lumber	1,459	7	1,727	7	3,411	9	3,683	6	2,621	
Machinery & Equipment	2,409	12	2,592	11	3,486	9	4,748	8	4,286	
Other Imports	3,692	19	4,846	21	8,996	23	10,805	17	8,502	1
Total	<u>\$19,712</u>	<u>100%</u>	<u>\$23,471</u>	<u>100%</u>	<u>\$38,314</u>	<u>100%</u>	<u>\$62,110</u>	<u>100%</u>	<u>\$57,863</u>	<u>100%</u>

(a) Dollar amounts have been translated as set forth in Note (a) on page 33.

Source: Ministry of Finance, *The Summary Report of Trade of Japan*.

Geographic Distribution of Japan's Exports and Imports(a)

	1971		1972		1973		1974		1975	
	(dollar amounts in millions)									
Japan's Exports										
Developed Areas										
U.S.A.	\$ 7,493	31%	\$ 8,848	31%	\$ 9,449	26%	\$12,799	23%	\$11,149	20%
E.E.C. (9 countries)	2,296	10	3,299	12	4,400	12	5,968	11	5,675	10
Australia	719	3	728	3	1,193	3	1,998	4	1,739	3
Canada	876	3	1,104	4	999	3	1,587	3	1,151	2
Others	1,641	7	1,980	6	3,005	8	4,069	7	3,720	7
Total	13,027	54	15,959	56	19,046	52	26,421	48	23,434	42
Developing Areas										
Asia	5,763	24	6,310	22	8,931	24	12,695	23	12,543	23
Middle East	825	3	1,174	4	1,774	5	3,680	7	6,075	11
Latin America	1,592	7	1,980	7	2,761	8	5,069	9	4,765	9
Africa	1,536	6	1,586	6	2,305	6	3,539	6	4,087	7
Others	118	1	137	—	158	—	204	—	162	—
Total	9,834	41	11,187	39	15,929	43	25,187	45	27,632	50
Communist Areas										
Soviet Union	377	2	504	2	484	1	1,096	2	1,626	3
China	578	2	609	2	1,039	3	1,984	4	2,259	4
Others	193	1	329	1	431	1	847	1	798	1
Total	1,148	5	1,442	5	1,954	5	3,927	7	4,683	8
Total	\$24,019	100%	\$28,591	100%	\$36,930	100%	\$55,536	100%	\$55,753	100%
Japan's Imports										
Developed Areas										
U.S.A.	\$ 4,979	25%	\$ 5,852	25%	\$ 9,270	24%	\$12,682	20%	\$11,608	20%
E.E.C. (9 countries)	1,605	8	1,959	8	3,177	8	3,982	6	3,371	6
Australia	1,752	9	2,205	9	3,495	9	4,025	7	4,156	7
Canada	1,004	5	1,149	5	2,015	5	2,676	4	2,499	4
Others	938	5	1,167	6	1,828	6	2,417	5	2,260	4
Total	10,278	52	12,332	53	19,785	52	25,782	42	23,894	41
Developing Areas										
Asia	3,404	17	4,171	18	7,953	21	12,497	20	10,586	18
Middle East	3,013	15	3,491	15	4,941	13	15,920	26	16,477	29
Latin America	1,338	7	1,418	6	1,955	5	2,713	4	2,524	5
Africa	590	3	692	3	1,067	3	1,583	3	1,111	2
Others	145	1	140	—	326	—	461	—	264	—
Total	8,490	43	9,912	42	16,242	42	33,174	53	30,962	54
Communist Areas										
Soviet Union	496	3	594	3	1,078	3	1,418	2	1,170	2
China	323	2	491	2	974	3	1,305	2	1,531	3
Others	125	—	141	—	234	—	418	1	305	—
Total	944	5	1,226	5	2,286	6	3,141	5	3,006	5
Total	\$19,712	100%	\$23,471	100%	\$38,314	100%	\$62,110	100%	\$57,863	100%

(a) Dollar amounts have been translated as set forth in Note (a) on page 33.

Source: Ministry of Finance, *The Summary Report of Trade of Japan*.

Balance of Payments

The following table indicates Japan's balance of payments for the years 1971 through 1975:

Balance of Payments of Japan

	1971	1972	1973	1974	1975	Three months ended March 31,	
						1975(a)	1976(a)
(in millions of dollars)							
Current Account							
Goods							
Exports (f.o.b.)..	\$23,566	\$28,032	\$36,264	\$54,480	\$54,734	\$14,666	\$15,703
Imports (f.o.b.)..	(15,779)	(19,061)	(32,576)	(53,044)	(49,706)	(12,744)	(12,988)
Balance	7,787	8,971	3,688	1,436	5,028	1,922	2,715
Services	(1,738)	(1,883)	(3,510)	(5,842)	(5,354)	(1,512)	(1,519)
Transfers	(252)	(464)	(314)	(287)	(356)	(68)	(64)
Balance on Current Account	5,797	6,624	(136)	(4,693)	(682)	342	1,132
Long-term Capital							
Assets(b)	(2,231)	(5,020)	(8,468)	(4,063)	(3,392)	(630)	(966)
Liabilities(b)	1,149	533	(1,282)	182	3,120	837	1,155
Balance	(1,082)	(4,487)	(9,750)	(3,881)	(272)	207	189
Basic Balance	4,715	2,137	(9,886)	(8,574)	(954)	549	1,321
Short-term Capital Balance	2,435	1,966	2,407	1,778	(1,138)	(5)	(105)
Errors and Omissions	527	638	(2,595)(c)	(43)	(584)	33	241
Overall Balance	<u>\$ 7,677</u>	<u>\$ 4,741</u>	<u>\$(10,074)</u>	<u>\$(6,839)</u>	<u>\$(2,676)</u>	<u>\$ 577</u>	<u>\$ 1,457</u>

(a) Seasonally adjusted for recurring intra-year patterns of variation.

(b) Parentheses indicate outflows of capital either as increases in assets or decreases in liabilities.

(c) This deficit is estimated to have been caused principally by the readjustment of payment provisions made by exporters and importers as a result of the floating of the yen.

Source: The Bank of Japan, *Balance of Payments Monthly Report*.

The balance on current account registered a deficit for 1974 of \$4,693 million largely due to the increased cost of oil imports. In 1975 such deficit was reduced as a result of an overall decrease in imports. Long-term capital movements reached a record \$9,750 million deficit in 1973 as a result of capital outflows principally consisting of direct investments and loans and net sales of portfolio investments by non-residents. In 1974 the deficit in the net long-term capital balance was reduced as the result of relaxation of controls on capital inflows and modifications of measures which had encouraged capital outflows and in 1975 because of portfolio investments by non-residents and the issuance of Japanese securities abroad. The 1975 deficit in the short-term capital balance principally reflected a decline in import credits. As a result of the increased trade surpluses in 1975 and the first quarter of 1976 and the various developments described above, the overall balance of payments has shown considerable improvement since 1973.

Official Foreign Exchange Reserves

Japan's official foreign exchange reserves totaled \$14.18 billion equivalent on March 31, 1976. This compares with official foreign exchange reserves of \$16.46 billion, \$34.69 billion and \$11.14 billion for the United States, the Federal Republic of Germany and France, respectively, on the same

date, as set forth in *International Financial Statistics* of the International Monetary Fund. The following table indicates the breakdown of Japan's official foreign exchange reserves as of the end of the years indicated:

Official Foreign Exchange Reserves of Japan(a)

As of December 31,	Gold	Foreign Exchange	IMF Reserve Position	Special Drawing Rights	Total
	(in millions of dollars)				
1971	\$738	\$13,783	\$532	\$307	\$15,360
1972	802	16,482	620	461	18,365
1973	891	10,203	639	513	12,246
1974	905	11,347	739	529	13,519
1975	865	10,627	804	520	12,815

(a) These reserves do not include: (i) net balance of bilateral accounts between The Bank of Japan and foreign central banks, (ii) certain balances held by the Ministry of Finance with Japanese banks to serve as working balances for the latter and (iii) foreign exchange holdings of commercial banks. All data are given in dollar values calculated in accordance with IMF methods of calculation. Gold is valued at SDR 35 per ounce, equivalent to \$40.97 as of December 31, 1975.

Source: International Monetary Fund, *International Financial Statistics*.

External Position of Banks

Other than official reserves, the total external short-term assets and liabilities (due within one year) of Japan, both private and public, consist principally of the external assets and liabilities of banks in Japan.

As indicated in the following table, the net deficit in the external short-term position of banks increased substantially in 1974. This increase resulted largely from borrowing by the banks to finance higher priced oil imports. In 1975 this position increased, due principally to increased borrowings by resident foreign banks to finance loans to Japanese firms. As a result of such borrowings, the official reserve position of Japan has remained relatively stable since the beginning of 1974.

Short-term External Assets and Liabilities of Japanese Banks(a)

As of December 31,	Assets(b)	Liabilities(c)	Net Position
	(in millions of dollars)		
1971	\$ 6,020	\$ 7,491	\$ (1,471)
1972	8,864	8,356	508
1973	10,003	13,468	(3,465)
1974	13,085	24,676	(11,591)
1975	12,947	26,418	(13,471)

(a) Indicates assets and liabilities arising out of claims on and liabilities due to non-residents by Japanese banks. Branches of foreign banks in Japan are considered to be Japanese banks. Foreign branches of Japanese banks are considered to be non-residents.

(b) Includes foreign deposits, export credits and loans to banks and agencies abroad but excludes assets related to official deposits which constitute a part of foreign exchange reserves.

(c) Includes only the external liabilities of banks. Therefore, official liabilities, current maturities of long-term debt and short-term borrowings outside the banking system are not included.

Source: The Bank of Japan, *Economic Statistics Monthly*.

Foreign Exchange Rates and Exchange Controls

The par value of the yen agreed to with the IMF on May 11, 1953 was ¥360 to the dollar of the weight and fineness of gold then in effect. On December 19, 1971, pursuant to the Smithsonian Agreement, a central rate of ¥308 to the dollar was established. See the first paragraph on page 3 of the Prospectus for information regarding exchange rates after that date.

Japan has accepted the obligations of Article VIII of the International Monetary Fund Agreement, and is a member of the Organisation for Economic Co-operation and Development, subscribing to its Liberalization Codes.

With respect to current transactions, exports can generally be made without specific licenses, although exporters are required to present export declaration forms to foreign exchange banks. Imports can generally be made upon declaration to foreign exchange banks, except in cases involving non-liberalized items. Invisible transactions can generally be made without specific licenses, provided their genuineness and legality are verified by foreign exchange banks.

Restrictions on foreign capital investments in Japan have been progressively relaxed. Direct investments are now fully liberalized with certain exceptions, and foreign portfolio investments are correspondingly liberalized. However, new issuances by Japanese corporations of securities payable in foreign currencies may only be made upon receipt of specific licenses from the Ministry of Finance.

Direct investments abroad by Japanese residents are subject to individual licensing by The Bank of Japan. In principle, such licenses are granted automatically. Acquisitions by residents of listed foreign securities through securities dealers are generally permitted. Foreign loans by Japanese banks other than short-term loans must be specifically licensed and are presently permitted on a selective basis.

FINANCIAL SYSTEM

The Bank of Japan and Monetary Policy

The Bank of Japan, the central bank and sole bank of issue, was established in 1882, and its capital is owned 55% by the Government and 45% by private subscribers, who have no voting power. At March 31, 1976, The Bank of Japan had total assets of ¥15,877 billion. The central bank acts as depository and fiscal agent for the Government.

The functions of The Bank of Japan are similar to those of central banks in other industrialized countries. In addition to issuing bank notes, it serves as the principal instrument for the execution of monetary policy by means of its lending policy, open market operations and deposit reserve requirements. Of these, the lending policy is the most important. In addition, The Bank of Japan gives guidance to private banks regarding their lending policies and related matters. Due in part to the high debt to equity ratios of Japanese companies and their heavy reliance generally on bank financing, such administrative guidance tends to be particularly effective.

The principal discount rate now in effect is 6.5%, which is applied to commercial bills, loans secured by Government securities and other designated securities. An additional 0.25% is charged for other securities discounted.

The deposit reserve requirements for banks and certain other financial institutions are subject to the approval of the Minister of Finance. The legal maximum reserve requirement is 20% (100% on resident foreign currency deposits and liabilities relating to non-residents). Within this limit, The Bank of Japan may fix different ratios for different categories of designated accounts and financial institutions. At present, the reserve requirement for demand deposits of leading banks is 3.0%.

Monetary policy has played a particularly important role in the Japanese economy. In 1972 sharply increasing economic activity created a condition of excess demand which caused prices to increase. In response to this situation The Bank of Japan in 1973 adopted a policy of monetary restraint implemented

by, among other things, increases in the official discount rate and increases in the deposit reserve requirements. This policy was maintained through 1974. Although price stabilization was achieved, the Japanese economy entered into a recession and in early 1975 The Bank of Japan began to raise monetary restraint measures.

The following table sets forth the principal economic indicators relating to monetary policy from 1971 through 1975:

	Discount Rate(a)		Reserve Requirements(b)		Money Supply(c)		Loans and Discounts All Banks	
	High	Low	High	Low	Total(d)	Annual % Change	Total(d)	Annual % Change
	(yen amounts in billions)							
1971	6.00%	4.75%	1.50%	1.50%	¥ 67,398	24.3%	¥49,048	24.2%
1972	4.75	4.25	1.50	1.50	84,041	24.7	61,599	25.6
1973	9.00	4.25	3.75	1.50	98,189	16.8	71,853	16.6
1974	9.00	9.00	4.25	4.25	109,494	11.5	79,614	10.8
1975	9.00	6.50	4.25	3.75	125,330	14.5	88,767	11.5

(a) The Bank of Japan discount rate for commercial bills.

(b) Reserve requirements for demand deposits of leading banks.

(c) Cash and demand, savings and time deposits, generally referred to as "M2".

(d) As of December 31.

Source: The Bank of Japan, *Economic Statistics Monthly*.

Government Financial Institutions

A number of financial institutions supplement the activities of private institutions. These are corporations under Government supervision, whose senior officials are appointed by the Government and whose funds are supplied principally by the Government. Among these are The Japan Development Bank, The Export-Import Bank of Japan, whose purpose is to supplement and encourage the private financing of exports, imports and overseas investments, the Small Business Finance Corporation, the Housing Loan Corporation and the Agriculture, Forestry and Fishery Finance Corporation, whose purposes are to supplement private financing in their respective fields of activity.

Private Financial Institutions

The private banking system includes 75 ordinary banks (12 city banks and 63 local banks), seven trust banks, whose business corresponds roughly to that of commercial banks in the United States, and one bank specializing in the foreign exchange field. In addition, three long-term credit banks supply long-term funds to industry for plant and equipment expenditures.

The mutual loan and savings banks, credit associations, credit cooperative associations, labor credit associations, the national federations of each of such associations and the Central Bank for Commercial and Industrial Cooperatives are mainly engaged in making small business loans. Agricultural cooperative associations, federations of such associations and the Central Cooperative Bank for Agriculture and Forestry operate in the field of agricultural credit.

Securities Markets

Japan has extensive markets for both equity and debt securities. There are eight stock exchanges, 257 securities companies and nine investment trust management companies. The Tokyo Stock Exchange is the second largest in the world after the New York Stock Exchange in terms of value of shares traded. As of May 31, 1976, securities of 1,429 issuers were listed on the Tokyo Stock Exchange, including securities of 16 private foreign companies, six foreign governments, the World Bank and the Asian Development Bank.

GOVERNMENT FINANCE

Revenues, Expenditures and Budgets

The responsibility for the preparation of the budget and the administration of Government finances rests with the Ministry of Finance. The fiscal year commences on April 1, and the Cabinet usually submits the budget to the Diet for its decision in January. New taxes may not be imposed nor expenditures made nor obligations assumed without the authorization of the Diet. Supplementary budgets revising the original budget may be submitted to the Diet from time to time during the fiscal year.

The fiscal and financial operations of the Government and its agencies are budgeted and recorded in three sets of accounts, namely, the General Account, the Special Accounts and the Government Agencies. The three are closely interrelated and should be analyzed in light of their combined fiscal and monetary impact.

The General Account is used primarily to record operations in traditional areas of governmental operations.

Special Accounts are set up for the purpose of segregating the accounts of certain functions of the Government in order to achieve more effective budgetary control and administration. Special Accounts can be grouped into the following general classifications: (i) Government activities of a specialized nature such as postal services, postal savings, national forest services and road improvement, (ii) control programs under which basic foodstuffs, other commodities and foreign exchange are bought, financed and sold, (iii) insurance funds which transact all Government insurance business including welfare insurance, unemployment insurance and postal life insurance, (iv) investment accounts which invest in various loans and securities including obligations of the Government and Government Agencies and (v) a consolidated debt service account, a reparations account and an account for transfers of tax moneys to local governments. Substantial transfers of funds are made from the General Account to Special Accounts.

Government Agencies are Government-owned corporations which conduct activities such as railway service, telegraph and telephone service, the tobacco and salt monopolies and certain banking functions. Some Government Agencies remit their profits to the General Account; other Agencies, including The Japan Development Bank, remit profits to Special Accounts; and still others retain all profits.

According to law, no debt, except short-term debt to be repaid within the fiscal year, may be issued by the Government except for public works expenditures, investments or loans. However, in December 1975, the Law Concerning a Special Treatment in the Issue of Public Bonds for JFY 1975 was enacted, pursuant to which public bonds in the amount of ¥2,090.5 billion were issued to finance the shortfall in tax revenues. The Government has presented to the Diet for approval a similar measure for JFY 1976 providing for the issuance of up to ¥3,750 billion of public bonds. This measure was approved by the House of Representatives and was submitted to the House of Councillors before the Diet ended its ordinary session on May 24, 1976. However, no final action can be taken on the measure by the Diet unless it is convoked.

Each fiscal year an amount equivalent to 1.6% of the total outstanding debt at the beginning of the preceding fiscal year and not less than one-half (one-fifth in the case of JFY 1975) of any surplus recorded in the General Account for the year preceding the last fiscal year must be applied toward the retirement of the Government debt. Redemption and interest payments on the national debt and related administrative expenses are transferred from the General Account to the Debt Consolidation Fund Special Account. The total amount estimated to be transferred for JFY 1975 is ¥1,102 billion, of which ¥322 billion is for redemptions, ¥752 billion for interest payments and the remainder for administrative expenses.

The settlement of accounts for revenues and expenditures is made by the Ministry of Finance, based on reports submitted by the respective Ministers. The settlement of accounts is required by law to be audited annually in detail by the Board of Audit, an organ independent of the Cabinet. An audit report must be made by the Cabinet to the Diet in the following fiscal year.

The following tables set forth information with respect to the General Account, the Special Accounts and the Government Agencies on a settlement basis for JFY 1971 through JFY 1974. The information for JFY 1975 represents the revised budget as approved by the Diet on November 7, 1975. The information for JFY 1976 represents the budget as approved by the Diet on May 8, 1976.

Summary of Consolidated General and Special Accounts(a)

	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975 Budget	JFY 1976 Budget
	(in billions of yen)					
Revenues						
Total Revenues, General Account	¥ 9,970	¥12,793	¥16,761	¥ 20,379	¥20,837	¥24,296(b)
Total Revenues, Special Accounts	19,627	22,567	27,130	33,593	40,202	50,151
Less: Inter-Account Transactions(c)	10,912	12,578	15,727	19,223	20,990	26,046
Total Consolidated Revenues	<u>¥18,685</u>	<u>¥22,782</u>	<u>¥28,164</u>	<u>¥34,749</u>	<u>¥40,049</u>	<u>¥48,401</u>
Expenditures						
Total Expenditures, General Account ..	¥ 9,561	¥11,932	¥14,778	¥19,099	¥20,837	¥24,296
Total Expenditures, Special Accounts ..	16,863	19,369	23,016	28,496	36,906	46,236
Less: Inter-Account Transactions(c)	10,900	12,554	15,729	19,186	21,007	26,041
Total Consolidated Expenditures	<u>¥15,524</u>	<u>¥18,747</u>	<u>¥22,065</u>	<u>¥28,399</u>	<u>¥36,736</u>	<u>¥44,491</u>
Surplus of Consolidated Revenues over Consolidated Expenditures	¥ 3,161	¥ 4,035	¥ 6,099	¥ 6,350	¥ 3,313	¥ 3,910

(a) Because of the manner in which the Government accounts are kept, it is not practicable to show a consolidation of the Government Agencies with the General and Special Accounts.

(b) Includes ¥3,750 billion of public bonds the issuance of which is subject to approval by the Diet. See text on preceding page.

(c) Inter-Account Transactions include transfers between the General Account and the Special Accounts, transfers between the Special Accounts, and transfers between sub-accounts of the Special Accounts.

General Account

	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975 Budget	JFY 1976 Budget
	(in billions of yen)					
Revenues						
Taxes & Stamp Revenues	¥ 7,927	¥ 9,770	¥13,365	¥15,036	¥13,461	¥15,519
Monopoly Profits	291	339	356	342	337	624
Receipts from Surplus Recorded in the Preceding Fiscal Year	271	410	862	1,984	771	29
Public Bonds	1,187	1,950	1,766	2,160	5,480	7,275(a)
Miscellaneous Revenues	294	324	412	857	788	849
Total Revenues	<u>¥ 9,970</u>	<u>¥12,793</u>	<u>¥16,761</u>	<u>¥20,379</u>	<u>¥20,837</u>	<u>¥24,296</u>
Expenditures						
General Administration	¥ 636	¥ 803	¥ 900	¥ 1,196	¥ 1,396	¥ 1,541
Local Finance	1,986	2,411	3,255	4,220	3,398	3,973
Defense	694	813	961	1,234	1,378	1,525
The Settlement of Affairs after the Restoration of Peace (includes Reparations)	23	25	20	23	18	6
Conservation & Development of Land ..	1,792	2,479	2,386	2,792	2,972	3,130
Industries & Economy	1,118	1,341	1,990	2,389	2,418	2,635
Education & Culture	1,099	1,310	1,587	2,238	2,624	2,945
Social Security, etc.	1,496	1,880	2,483	3,526	4,518	5,359
Annuities & Pensions	331	368	484	590	756	987
National Debt Service	321	454	685	847	1,102	1,665
Other Expenditures	65	48	27	44	257	530
Total Expenditures	<u>¥ 9,561</u>	<u>¥11,932</u>	<u>¥14,778</u>	<u>¥19,099</u>	<u>¥20,837</u>	<u>¥24,296</u>
Surplus of Revenues over Expenditures	¥ 409	¥ 861	¥ 1,983	¥ 1,280	—	—

(a) See Note (b) to preceding table.

Special Accounts(a)

	JFY 1971		JFY 1972		JFY 1973		JFY 1974		JFY 1975 Budget		JFY 1976 Budget	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
	(in billions of yen)											
Trust Fund Bureau ..	¥ 1,037	¥ 1,035	¥ 1,290	¥ 1,298	¥ 1,609	¥ 1,607	¥ 2,036	¥ 2,033	¥ 2,727	¥ 2,727	¥ 3,421	¥ 3,421
National Debt Consol- idation Fund	2,265	2,130	2,308	2,209	3,312	3,083	3,528	3,250	3,938	3,938	6,029	6,029
Foreign Exchange Fund	200	40	87	76	201	200	316	96	394	394	298	298
Industrial Investment Reparations and Other Special Foreign Ob- ligations	119	111	108	97	139	138	99	98	86	86	80	80
Allotment of Local Al- location Tax and Transferred Tax ..	18	8	19	13	16	16	9	8	9	9	3	3
National Schools	2,238	2,235	2,848	2,846	3,593	3,592	4,593	4,589	4,893	4,893	6,841	6,841
Welfare Insurance ..	354	349	414	393	502	462	673	635	746	746	846	846
National Pensions ...	2,216	1,196	2,684	1,453	3,397	1,850	4,654	2,702	5,662	3,614	7,130	4,608
Foodstuff Control ...	466	252	577	338	764	481	1,180	894	1,514	1,414	1,975	1,975
National Forest Serv- ice	5,057	5,035	4,617	4,601	4,922	4,916	5,734	5,720	7,428	7,428	8,375	8,375
Specific Land Im- provement	191	213	236	231	289	249	320	314	394	407	436	438
Export Insurance	49	46	51	48	49	47	50	48	62	62	81	81
Harbor Improvement	36	5	41	5	47	8	64	8	73	73	98	98
Airport Improvement	144	138	182	169	176	157	196	178	189	189	205	205
Postal Service	39	34	67	55	68	51	86	75	86	86	102	102
Postal Savings	915	883	1,203	1,166	1,359	1,373	1,797	1,753	2,164	2,164	2,636	2,636
Postal Life Insurance and Postal Annuity	673	539	841	682	1,048	875	1,309	1,198	1,564	1,550	2,101	2,101
Labor Accident Insur- ance	918	405	1,126	452	1,361	515	1,645	641	1,982	861	2,353	987
Road Improvement ..	—	—	1,256	1,084	1,538	1,279	2,061	1,747	2,745	2,743	3,286	3,285
Flood Control	858	852	1,115	1,098	1,083	1,062	1,219	1,213	1,183	1,183	1,236	1,236
Others	307	303	404	393	388	377	450	443	523	523	522	522
Total Revenues and Expenditures(b)	1,527	1,054	1,093	662	1,269	678	1,574	843	1,842	1,816	2,097	2,068
	¥19,627	¥16,863	¥22,567	¥19,369	¥27,130	¥23,016	¥33,593	¥28,486	¥40,202	¥36,906	¥50,151	¥46,236
Number of Special Accounts for Years Shown	43		41		41		42		41		41	

(a) Revenues and expenditures shown in this table reflect only cash receipts and disbursements for all Special Accounts except Trust Fund Bureau and Foreign Exchange Funds Special Accounts. For these Special Accounts revenues and expenditures indicate profit and loss transactions.

(b) Without adjustment for inter-account transactions.

Government Agencies(a)

	JFY 1971		JFY 1972		JFY 1973		JFY 1974		JFY 1975 Budget		JFY 1976 Budget	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
	(in billions of yen)											
Japan Tobacco and Salt Corpo- ration	¥ 942	¥ 643	¥1,027	¥ 687	¥1,113	¥ 771	¥1,209	¥ 987	¥1,355	¥1,181	¥ 1,819	¥ 1,313
Japanese National Railways ..	1,922	1,900	2,303	2,255	2,611	2,738	3,277	3,162	3,533	3,533	4,105	4,105
Nippon Telegraph & Telephone Public Corporation	1,829	1,816	2,197	2,149	2,513	2,425	2,917	2,901	3,366	3,366	4,068	4,068
The Japan Development Bank	128	101	145	116	164	134	191	153	231	186	279	227
Others	468	452	565	535	671	650	861	834	1,099	1,123	1,375	1,400
Total	¥5,289	¥4,912	¥6,237	¥5,742	¥7,072	¥6,718	¥8,455	¥8,037	¥9,584	¥9,389	¥11,637	¥11,113
Surplus of Revenues over Ex- penditures	¥377		¥495		¥354		¥418		¥195		¥524	
Number of Agencies for Years Shown	14		15		15		15		15		15	

(a) With respect to Nippon Telegraph & Telephone Public Corporation and Japanese National Railways, revenues and expenditures shown in this table reflect only cash receipts (including borrowed funds) and cash disbursements (including debt service and capital expenditures). With respect to all of the other Agencies except Japan Tobacco and Salt Corporation, revenues and expenditures indicate profit and loss transactions. With respect to Japan Tobacco and Salt Corporation, revenues and expenditures reflect only cash receipts (not including borrowed funds) and cash disbursements (not including debt service but including capital expenditures).

Tax Structure

Aggregate tax revenues, including national and local taxes, have averaged about 20% of gross national product for each year since 1950. This compares with tax revenues as a percentage of gross national product during 1972 of 28.1% in the United States, 36.0% in the Federal Republic of Germany, 35.8% in France and 34.7% in the United Kingdom as set forth in the *Revenue Statistics* of the Organisation for Economic Co-operation and Development.

Taxes are levied by the central Government as well as by local governments. Central Government direct taxes in JFY 1974 amounted to 74% of total tax revenues. The most important direct taxes are those on individual and corporate incomes. For JFY 1974 these taxes accounted for 34% and 37%, respectively, of total central Government tax revenues. The two most important indirect taxes are those on liquor and gasoline, which each contributed 5% to total JFY 1974 tax revenues. Local governments receive 32% of the total revenues from income taxes on individuals and corporations and from liquor taxes.

The personal income tax is progressive. Rates range from 10% to 75% of taxable income. The corporate tax is based on a rate of 40% on income above ¥7 million and 28% on income of not more than ¥7 million. However, the reduced tax rate on the first ¥7 million is not applicable to large corporations with a capital of more than ¥100 million. The corporate tax rates are reduced to 30% and 22%, respectively, on income distributed as dividends.

Interest on deposits may be taxed separately or in the aggregate at the taxpayer's option. Interest income from deposits, public bonds and debentures is exempt from tax if the principal amount on which interest was earned by any one taxpayer does not exceed ¥3 million. The interest on central Government bonds not exceeding ¥3 million in principal amount may additionally be exempt from tax.

Fiscal Investment and Loan Program

The Fiscal Investment and Loan Program is drawn up annually by the Government together with the budget, and since JFY 1973 all of the Program has been subject to Diet approval. The sources of funds for the Program in JFY 1976 are the Trust Fund Bureau Fund (¥8,622 billion), the Postal Life Insurance Fund (¥1,159 billion), Government guaranteed bonds and borrowings (¥768 billion) and the Industrial Investment Special Account (¥70 billion). The allocation of funds is made with the objective of enhancing public welfare and with a view toward contributing to the implementation of prevailing fiscal and monetary policy. Under the Program, the Government makes loans to Government Agencies, public corporations, the Special Accounts of the budget and local governments. The funds supplied under the Program are the major source of funds for agencies such as the Japanese National Railways, the Housing Loan Corporation, the People's Finance Corporation, The Japan Development Bank, The Export-Import Bank of Japan, the Japan Housing Corporation and the Japan Highway Public Corporation. These organizations in turn finance or directly construct projects for industry, housing, public service facilities, welfare and education facilities and other projects in accordance with the priorities of public policy.

The following table shows the principal uses of funds in the Program:

	JFY 1971	JFY 1972	JFY 1973	JFY 1974	JFY 1975(a)	JFY 1976(b)
	(in billions of yen)					
Housing	¥ 924	¥ 989	¥1,173	¥1,707	¥ 2,387	¥ 2,413
Water Supply, Sewers and Other Util- ities	713	1,012	1,121	1,451	1,821	1,685
Small and Medium Size Enterprises ..	893	948	1,475	1,793	1,731	1,760
Roads	409	580	656	686	796	806
Transportation and Communication ..	630	875	1,081	1,256	1,355	1,213
Foreign Trade and Economic Coopera- tion	389	414	601	654	746	868
Others	1,051	1,220	1,306	1,473	1,870	1,874
Total	<u>¥5,009</u>	<u>¥6,038</u>	<u>¥7,413</u>	<u>¥9,060</u>	<u>¥10,706</u>	<u>¥10,619</u>

(a) Estimated Program.

(b) Initial Program.

JAPAN PUBLIC DEBT

The following table summarizes, as of the dates indicated, the outstanding direct internal and external funded and floating debt of Japan. The term "floating debt" is used herein to mean all debt with maturities of one year or less from the date of issue. All other debt is classified as "funded debt".

Summary of Japan Public Debt(a)

As of March 31,	Funded			Floating Internal	Total Public Debt
	Internal	External	Total		
	(in billions of yen)				
1971	¥ 3,522	¥89	¥ 3,611	¥2,615	¥ 6,226
1972	4,633	77	4,710	2,896	7,606
1973	6,492	72	6,564	5,140	11,704
1974	8,283	40	8,323	4,832	13,155
1975	10,539	36	10,575	5,134	15,709
1976	15,973	33	16,006	6,789	22,795

(a) Does not include obligations described under "Miscellaneous Obligations".

As of March 31, 1976, Japan had guaranteed payment of principal and interest of various internal yen obligations in the aggregate principal amount of ¥2,643 billion and various external obligations aggregating ¥622 billion. In addition, The Japan Development Bank and The Export-Import Bank of Japan had guaranteed the principal and interest of external obligations amounting to ¥313 billion as of March 31, 1976.

Japan's total direct funded debt at the end of JFY 1974 represented approximately 7.8% of the JFY 1974 gross national product and amounted to approximately \$312 per capita. Payments of principal and interest on Japan's direct external funded debt amounted to \$19.4 million equivalent in 1974 and \$17.8 million equivalent in 1975, in each case representing 0.03% of the receipts of the current account of the balance of payments for these years. Payments of principal and interest on public and private Japanese external funded debt amounted to \$884 million equivalent in 1974 and \$833 million equivalent in 1975, representing 1.3% and 1.2%, respectively, of the receipts of the current account of the balance of payments for these years.

The aggregate annual payments of principal in respect of the direct internal and external funded debt of Japan outstanding at March 31, 1976 are set forth below for the periods indicated:

Principal Payments on Direct Funded Debt of Japan(a)

JFY	Internal	External			Total (in millions of yen)
	Yen (in millions)	Dollars	Pounds (in thousands)	Deutsche Marks Swiss Francs	
1976	¥ 499,725	\$2,662	£ 100	DM 28,000	¥ 503,302
1977	451,011	2,040	106	28,000	454,401
1978	799,147	2,040	113	28,000	SF 50,000 806,552
1979	65,658	1,767	129	28,000	68,975
1980	71,384	—	127	8,000	72,250
1981	567,777	—	134	8,000	568,649
1982-1985	13,197,758	—	6,709	12,000	60,000 13,209,102
1986-2005	320,207	—	2,839	—	322,486
Total	¥15,972,667	\$8,509	£10,248	DM140,000 SF110,000	¥16,005,717

(a) Actual principal payments may vary from the amounts shown since prepayments will increase the amounts shown whereas refundings will defer such amounts. Amounts do not include obligations described under "Miscellaneous Obligations".

There has been no default since the establishment of the modern Japanese State in 1868 in the payment of interest or principal of any internal Japanese Government obligation.

Since the first incurring of foreign debt by Japan in 1870, the full amount of principal and interest on all Government and municipal* foreign debt has always been paid on the due date in lawful currency of the country where payable at the time of payment, except as prevented by disruption during World War II and in the post-war period as indicated below.

Payment of interest and principal of all Japanese Government, municipal and corporate dollar bonds was suspended from December 8, 1941 through December 22, 1952. On November 24, 1952, Japan made an offer of settlement to the holders of all Japanese dollar bonds pursuant to which:

(i) Japan offered to assume full liability for all corporate and municipal bonds, the issuers of such bonds to be released from all liabilities under such bonds;

(ii) Maturities of the dollar bonds were to be extended by ten years from the original dates in each case, and interest was to be paid at the original rates and on the same semi-annual interest dates through the extended life of the bonds.

(iii) "Arrears Coupon Strips" were to be given to the bondholders covering the period December 22, 1942 through September 25, 1952, the coupons to provide for interest at contractual rates, and payment to be made in each case ten years after the date originally specified; and

(iv) The offer was to remain open for acceptance unless and until the Japanese Government notified the fiscal agents to the contrary.

* Service on the City of Tokyo 5% Loan of 1912 issued in France was interrupted in March 1928 due to a dispute between the issuer and bondholders as to whether the bonds were payable in pounds sterling or in French francs. The issuer continued to make payments in French francs to the Fiscal Agent in Japan, but the funds were not transferred to the French paying agents. In 1960, a compromise agreement was signed and as of March 31, 1976, 94.8% of the outstanding bonds had been purchased in accordance with the agreement.

This offer is open at present and as of December 31, 1975 had been accepted by the holders of 99.4% of the outstanding dollar bonds. Interest and sinking fund payments as to bonds held by persons accepting the offer were resumed in 1952.

Debt settlement offers to holders of Japan's sterling and French franc bonds were made on November 24, 1952 and February 28, 1957, respectively. These offers, except the part of the offer to the holders of French franc bonds pertaining to repurchase of bonds, which terminated on February 28, 1958, are still open. As of March 31, 1976, the holders of 99.7% of the outstanding sterling bonds and 94.8% of the outstanding French franc bonds had accepted these offers.

INTERNAL DEBT

A. Direct Debt of the Japanese Government

I. FUNDED DEBT

<u>Title and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Principal Amount Outstanding March 31, 1976 (in millions of yen)</u>
1. Bonds			
6½% Treasury Bond, 26 Series(1)	1969-1973	1976-1983	¥ 3,986,612
7% Treasury Bond, 7 Series(1)	1972-1973	1982-1983	2,132,132
7¾% Treasury Bond, 7 Series(1)	1974	1984	1,888,722
8% Treasury Bond, 14 Series(1)	1974-1976	1984-1986	7,078,127
6% Bereaved Family Treasury Bond, 8 Series(2)	1967-1974	1976-1983	128
6% Repatriation Treasury Bond, 9 Series(2)	1966-1975	1976-1985	0
Non-interest Special Benefit Treasury Bond I, 7 Series(2)	1966-1975	1976-1985	271
Non-interest Treasury Bond for Special Condolence, 3 Series(2)	1966-1972	1976-1982	3,640
Non-interest Special Benefit Treasury Bond II, 9 Series(2)	1966-1975	1976-1985	2,150
Non-interest Special Benefit Treasury Bond III, 3 Series(2)	1972-1975	1977-1980	2
Non-interest Repatriation Special Benefit Treasury Bond, 8 Series(2)	1967-1974	1977-1984	28,495
Non-interest Special Benefit Treasury Bond IV, 2 Series(2)	1973-1974	1983-1984	162,245
Non-interest Special Benefit Treasury Bond V, 3 Series(2)	1973-1975	1977-1980	1,736
Non-interest Treasury Bond for Special Condolence II(2)	1975	1985	20,389
Total Bonds			¥15,304,649
2. Borrowings			
0-3½% Extraordinary Military Expenditure	1943-1945	(3)	¥ 41,422
6.5% Ex-Ryukyu Government	1972	1978-1982	3,014
National Property Special Consolidation Fund (6.2%-8.0%)	1972-1976	1978-1985	96,530
National Schools (6.2%-8.0%)	1972-1976	1979-2000	68,202
National Hospitals (6.2%-8.0%)	1963-1976	1988-2001	82,453
Special Land Improvement (6.0%-8.0%)	1962-1976	1992-2006	160,319
Postal Services (6.5%-8.0%)	1962-1976	1977-2001	141,581
Flood Control (6.2%-8.0%)	1973-1976	1980-1984	1,671
Finance for Urban Redevelopment (6.2%-8.0%)	1967-1976	1976-1986	72,826
Total Borrowings			¥ 668,018
Total Direct Internal Funded Debt			¥15,972,667

II. FLOATING DEBT

<u>Title</u>	<u>Interest or Discount</u>	<u>Year of Maturity</u>	<u>Principal Amount Outstanding March 31, 1976 (in millions of yen)</u>
Foreign Exchange Fund Bills, 25 Series	5.625%	1976	¥ 2,819,497
Food Bills, 17 Series	5.625%	1976	1,303,575
Note in Substitution for Currency of the International Development Association(4)	Non-interest bearing	Payable on demand	81,054
Note in Substitution for Currency of the International Monetary Fund(4)	Non-interest bearing	Payable on demand	298,518
Note in Substitution for Currency of the Asian De- velopment Bank(4)	Non-interest bearing	Payable on demand	19,152
Note for Contribution to the Special Funds of the Asian Development Bank(4)	Non-interest bearing	Payable on demand	70,112
Note in Substitution for Currency of the African Development Fund(4)	Non-interest bearing	Payable on demand	2,999
Industrial Investment	7.5%	1976	2,000
Allotment of Local Allocation Tax and Transferred Tax	7.5%	1976	1,287,940
Welfare Insurance	7.5%	1976	654,844
Postal Services	7.5%	1976	247,500
Alcohol Monopoly	7.5%	1976	2,300
Total Direct Internal Floating Debt			¥ 6,789,491
Total Direct Internal Debt			¥22,762,158

B. Debt Guaranteed by the Japanese Government

<u>Description</u>	<u>Principal Amount Outstanding March 31, 1976 (in millions of yen)</u>
I. FUNDED DEBT	
1. Bonds issued by sixteen Government-affiliated corporations	¥2,417,227
2. Borrowings of six Government-affiliated corporations	216,691
Total Internal Funded Debt Guaranteed by the Japanese Government	¥2,633,918
II. FLOATING DEBT	
Borrowings of two Government-affiliated corporations	¥ 8,687
Total Internal Debt Guaranteed by the Japanese Government	¥2,642,605

(1) Of these bonds, ¥112,489 million were issued in exchange for Government debt incurred prior to 1945 and held by The Bank of Japan and other banks.

(2) These Treasury bonds are non-transferrable and were issued in lieu of cash payments to satisfy obligations created by various laws.

(3) Represents borrowings by the Government from special corporations of currencies of areas under Japanese control during World War II. The maturity of such borrowings and other matters relating to such borrowings remain undetermined.

(4) These obligations, which are generally payable to international financial organizations, are denominated in yen and are officially classified by the Japanese Government as internal debt.

EXTERNAL DEBT

A. Direct Funded Debt of the Japanese Government

<u>Title and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Principal Amount Outstanding March 31, 1976</u>	<u>Equivalent in Yen of Principal Amount Outstanding March 31, 1976 (in millions of yen) (1)</u>
Bonds Issued by the Japanese Government (2)				
Dollar Bonds				
Japan 5½%	1963	1980	\$ 8,509,000	¥ 2,621
Pound Sterling Bonds				
Japanese Government 4%	1910	1985	£ 6,107,740	¥ 4,902
[Coupon Strip]			[12,142]	[10]
Japanese Government 6%	1963	1988	4,161,400	3,340
Swiss Franc Bonds				
Japanese Government 5½%	1964	1979	SF 50,000,000	¥ 4,010
Japanese Government 5½%	1968	1983	60,000,000	4,813
Deutsche Mark Bonds				
Japanese Government 6%	1964	1979	DM 80,000,000	¥ 7,646
Japanese Government 7%	1968	1983	60,000,000	5,735
Total Direct External Funded Debt				<u>¥33,067</u>

B. Funded Debt Guaranteed by the Japanese Government

<u>Description and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Equivalent in Yen of Principal Amount Outstanding March 31, 1976 (in millions of yen) (1)</u>
Bonds and Borrowings by and Deposits with Japanese Banks, Corporations, Government Agencies and Municipalities			
5.375%-10.5%	1957-1976	1976-1991	¥622,199

The foregoing bonds, borrowings and deposits are denominated and repayable in dollars, Deutsche marks and Swiss francs. The respective amounts thereof maturing in each such currency in each of the various periods and the yen equivalents thereof are shown in the following table:

	<u>Dollars</u>	<u>Deutsche Marks</u> (in thousands)	<u>Swiss Francs</u>	<u>Yen</u> (in millions)
JFY 1976-1977	\$ 167,512	DM 164,000	—	¥ 67,269
JFY 1978-1979	1,176,320	154,000	—	377,026
JFY 1980-1981	119,135	274,000	SF 26,000	64,968
JFY 1982-1986	118,689	436,000	80,000	84,646
JFY 1987-1990	61,665	10,000	104,000	3,290
Total	<u>\$1,643,321</u>	<u>DM 1,038,000</u>	<u>SF 210,000</u>	<u>¥ 622,199</u>

C. Funded Debt Guaranteed by Government Agencies

<u>Description and Interest Rate</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Equivalent in Yen of Principal Amount Outstanding March 31, 1976 (in millions of yen) (1)</u>
Bonds and Borrowings of, Credits Obtained by and Guarantee Obligations of Japanese Corporations			
5.5%-9.75% (3)	1957-1975	1976-1992	¥312,752

The foregoing bonds, borrowings, credits and guarantee obligations are denominated and repayable in dollars, pounds sterling and Swiss francs. The respective amounts thereof maturing in each such currency in each of the various periods and the yen equivalents thereof are shown in the following table:

	<u>Dollars</u>	<u>Pounds</u> (in thousands)	<u>Swiss Francs</u>	<u>Yen</u> (in millions)
JFY 1976-1977	\$222,252	£ 4,726	—	¥ 72,247
JFY 1978-1979	212,557	3,646	SF4,500	72,003
JFY 1980-1981	156,915	3,646	—	51,256
JFY 1982-1986	253,555	6,489	—	83,303
JFY 1987-1991	110,206	—	—	33,943
Total	<u>\$955,485</u>	<u>£ 18,507</u>	<u>SF4,500</u>	<u>¥312,752</u>

(1) Translations of amounts in foreign currencies to amounts in yen in this table are made at the central rates communicated to the IMF as of December 31, 1971, except for conversion of Swiss francs, which is made on the basis of the gold value of the Swiss franc as reported by Switzerland to the European Monetary Agreement. The rates are as follows:

1 \$	= ¥308
1 £	= ¥802.56
1 DM	= ¥ 95.58
1 SF	= ¥ 80.21

The yen equivalent of (a) direct funded debt, (b) funded debt guaranteed by the Japanese Government and (c) funded debt guaranteed by Government agencies, translated at exchange rates in effect in New York City on March 31, 1976, were, respectively, ¥37,901 million, ¥639,280 million and ¥297,357 million.

(2) The sterling bonds shown in this table include the relatively small amount of bonds whose holders have not accepted the respective debt settlement offers. They also include all sterling bonds revaluated by March 31, 1976. In addition to the principal amount of bonds outstanding, \$2,107,291 and £512,428 of matured bonds (together with Coupon Strips of \$1,682,791 and £349,021, respectively) were held by persons who had not accepted the respective debt settlement offers as of March 31, 1976.

(3) Certain obligations are at floating interest rates ranging from 0.625% to 1.50% per annum above the prime rates charged by various United States banks.

MISCELLANEOUS OBLIGATIONS

After World War II, Japan entered into agreements to pay reparations to four countries. The only significant such agreement under which Japan remains obligated is with the Philippines. The agreement calls for payment in goods and services in approximately equal annual amounts, subject to the availability

for delivery of such goods and services. The value of remaining payments as of June 30, 1976, all of which are expected to be made by July 22, 1976, is \$13,392,068.

Additionally, Japan entered into voluntary economic and technical cooperation agreements with various countries which did not or could not otherwise claim reparations from Japan. Such agreements still remain in effect with Burma and require Japan to supply goods and services on generally the same terms as contained in the Philippines reparations agreement. The value of payments remaining to be made as of June 30, 1976, all of which are expected to be made by April 15, 1977, is \$10,726,556.

SUBSCRIPTIONS TO INTERNATIONAL FINANCIAL ORGANIZATIONS

Japan is obligated to contribute to the capital subscriptions and, in some cases, to the additional financing requirements of certain international organizations in which it participates. Certain of its obligations to such organizations are set forth on page 47. Additional information is provided below.

Japan's current subscription to the International Monetary Fund is SDR 1,200 million (equivalent to \$1,404.8 million as of December 31, 1975). Of Japan's subscription, 25% was paid in gold, 1% in yen and 74% in non-negotiable, non-interest bearing notes payable on demand in yen.

Japan's subscription to the capital of the World Bank is \$1,234.1 million. Of this amount, 10% has been paid (9% in yen and 1% in dollars) and 90% is callable by the World Bank if required to meet its obligations in respect of funds borrowed or indebtedness guaranteed by the World Bank.

Japan's current subscription to the capital of the International Development Association is \$776.5 million. Japan's subscription to the capital of the International Finance Corporation is \$2.8 million.

Japan's subscription to the capital of the Asian Development Bank ("ADB") is \$603.2 million, representing 18.8% of the ADB's total subscriptions. Of this amount, 32% represents paid-in capital and the remaining 68% is callable by the ADB if required to meet its obligations in respect of funds borrowed or indebtedness guaranteed by the ADB.

Japan's subscription to the capital of the African Development Fund, an affiliate of the African Development Bank, is \$16.7 million. This subscription represents 11.3% of the African Development Fund's total subscriptions.

Japan's subscription to the inter-regional capital and its contribution to the Fund for Special Operation of the Inter-American Development Bank will be \$68.7 million each.

OFFICIAL PUBLIC DOCUMENTS

The documents referred to in the portion of this Prospectus relating to Japan as being the sources of financial or statistical data set forth therein are in all cases official public documents of Japan, its agencies or The Bank of Japan, with the exception of the United Nations, *The Demographic Yearbook, 1974*; Japan Productivity Center, *Quarterly Journal of Productivity*; the International Monetary Fund, *International Financial Statistics*; and the Organisation for Economic Co-operation and Development, *Revenue Statistics*. Unless otherwise indicated, all such Japanese official public documents are published in English as well as Japanese.

DESCRIPTION OF THE NOTES AND GUARANTEE

General

The Notes will be payable as to interest and principal in such coin or currency of the United States as at the time of payment is legal tender for the payment therein of public and private debts, at the office of The Bank of Tokyo Trust Company, New York, N. Y., or its successor as fiscal agent, pursuant to a Fiscal Agency Agreement dated as of July 15, 1976 to be executed between the Bank, Japan and The Bank of Tokyo Trust Company (the "Fiscal Agent"), except that interest on the fully registered Notes will be payable to the registered holders of such Notes who were such at the close of business on the last day of the month next preceding the interest payment date and may, at the option of the Bank be payable by checks mailed to such registered holders. The Fiscal Agent is not a trustee for the Note holders and does not have the same responsibilities or duties to act for such holders as would a trustee. The Notes are to mature July 15, 1981. Interest payment dates are January 15 and July 15 commencing January 15, 1977.

The Notes are to be issued in definitive bearer form with interest coupons attached, registrable as to principal, in the denomination of \$1,000, and in definitive fully registered form without coupons, in the denominations of \$1,000 and any multiple thereof. Any fully registered Notes issued upon original issue may be exchanged for coupon Notes without charge to the holder.

Rank of Notes

The Notes will be unsecured. At the time of issuance they will rank on a parity with all other indebtedness of the Bank, except that certain preferential rights, such as preferential rights of employees to wages, are granted by the Japanese Civil Code to certain specified types of creditors.

The Bank will agree in the Notes that if it shall, in the future, secure any loan, debt, guarantee or other obligation, now or hereafter existing, by any lien, pledge or other charge upon any of its present or future assets or revenues, the Notes shall share in and be secured by such lien, pledge or other charge equally and ratably with such other loan, debt, guarantee or other obligation.

Guarantee of Japan

Japan will unconditionally guarantee payment of principal and interest on the Notes. The guarantee will be a general obligation of Japan, and the full faith and credit of Japan will be pledged for the performance thereof. The guarantee will rank *pari passu* with all other general obligations of Japan without any preference one above the other by reason of priority of date of issue or otherwise. Japan will agree that the guarantee may be enforced, in the event of default by the Bank, without making prior demand upon or seeking to enforce remedies against the Bank.

Japan will agree in the guarantee that if it shall, in the future, secure any loan, debt, guarantee or other obligation constituting external debt, now or hereafter existing, by any lien, pledge or other charge upon any of its present or future assets or revenues, the guarantee shall share in and be secured by such lien, pledge or other charge equally and ratably with such other loan, debt, guarantee or other obligation.

Taxation

Interest on and principal of the Notes will be payable without deduction for or on account of any present or future taxes or duties, of whatsoever nature, imposed or levied by or within Japan or by or within any prefecture, municipality or other political subdivision or taxing authority therein or thereof, but the foregoing provision shall not be construed as exempting any Note or the income therefrom from taxation when the bearer or registered owner thereof (or the beneficial owner thereof if he is a person other than the bearer or registered owner) is subject to taxation thereon or on such income, otherwise than by reason of his ownership of such Note or the receipt of income therefrom. For

example, the bearer or registered owner of a Note who is taxable as a resident of Japan would not be entitled to such exemption. The foregoing provision does not provide exemption from taxation by any country other than Japan.

As regards United States taxation, in the opinion of Milbank, Tweed, Hadley & McCloy, special counsel for the Bank and Japan, interest on the Notes is currently exempt from United States income taxes, including withholding taxes, if paid to an individual who is not a citizen or resident of the United States, or to a corporation organized under the laws of a country other than the United States, whether or not such individual or corporation is engaged in trade or business in the United States, unless

(i) the corporation is an insurance company carrying on a life insurance business in the United States to which the interest is attributable, within the meaning of the United States Internal Revenue Code, or

(ii) the individual or corporation has an office or other fixed place of business in the United States to which the interest is attributable and the interest either is derived in the active conduct of a banking, financing or similar business in the United States or is received by a corporation the principal business of which is trading in stocks or securities for its own account, and certain other conditions exist.

In the further opinion of Milbank, Tweed, Hadley & McCloy, interest paid by the Bank on the Notes will, for United States income tax purposes, constitute income from sources without the United States, provided that the Bank continues to derive more than 50% of its gross income from the conduct of a trade or business outside the United States.

Acceleration of Maturity

In case of default in any payment of interest on the Notes, and continuance of such default for a period of 30 days, each Note will become due and payable at the option of the bearer or registered owner of such Note upon written notice to the Fiscal Agent, unless prior to the receipt of such notice by the Fiscal Agent all defaults shall have been cured. No periodic evidence is required to be furnished by the Bank to the Fiscal Agent as to the absence of default.

Redemption

The Notes are not redeemable prior to maturity.

Governing Law

The Fiscal Agency Agreement, the Notes and the guarantee of Japan all provide that they shall be governed by, and interpreted in accordance with, the laws of the State of New York, except with respect to authorization and execution by the Bank and Japan of the Fiscal Agency Agreement and the Notes and the guarantee of Japan, as the case may be, and any other matters required to be governed by the laws of Japan.

Consent to Service

The Bank will effect the irrevocable appointment of the Fiscal Agent as its authorized agent upon which process may be served in any action based upon the Notes (i.e. asserting rights set forth in the Notes) which may be instituted in any State or Federal court in The City of New York by any holder of a Note or coupon and will accept the jurisdiction of such court in such action. The Bank will also waive irrevocably any immunity to which it might otherwise be entitled in any action based upon the Notes. Japan has made no such appointment or waiver of immunity. The Fiscal Agent is not the agent for service for actions brought under the federal securities laws nor does the Bank's waiver of immunity extend to such actions.

The foregoing statements include brief summaries of some of the provisions of the forms of Notes and Guarantees and of the Fiscal Agency Agreement, copies of which are filed as exhibits to the Registration Statement. Such statements do not purport to be complete and are qualified in their entirety by reference to such exhibits.

Listing

The Bank has agreed to make application to list the Notes on the New York Stock Exchange. Such listing is contingent, among other things, upon sufficient distribution of the Notes being effected to meet the requirements of the Exchange.

AUTHORIZED AGENTS IN THE UNITED STATES

The authorized agents in the United States of the Bank and Japan, for the purpose of the United States Securities Act of 1933, are, respectively, Jun Kano, Duly Authorized Representative in the United States of The Japan Development Bank, and Tadayuki Koizumi, Duly Authorized Representative in the United States of the Minister of Finance of Japan.

LEGAL OPINIONS

The validity of the Notes and of the guarantee thereof is being passed upon on behalf of the Bank by Nobukata Naritomi, Esq., of Tokyo, Japan (who is passing only upon the Notes), on behalf of Japan by the Director-General of the Cabinet Legislation Bureau of Japan, and on behalf of the Bank and Japan by Milbank, Tweed, Hadley & McCloy of New York, N. Y. The validity of the Notes and of the guarantee thereof is being passed upon on behalf of the Underwriters by Sullivan & Cromwell of New York, N. Y. and by Blakemore & Mitsuki of Tokyo, Japan. In giving their opinions, Milbank, Tweed, Hadley & McCloy and Sullivan & Cromwell may rely as to matters of Japanese law upon the opinions of other counsel referred to in this paragraph, and Nobukata Naritomi, Esq. and Blakemore & Mitsuki may rely as to matters of New York law upon the opinions of Milbank, Tweed, Hadley & McCloy and Sullivan & Cromwell. All statements in the Prospectus with respect to or involving matters of Japanese law have been passed upon by Nobukata Naritomi, Esq. (with respect to matters relating to the Bank and its business), by the Director-General of the Cabinet Legislation Bureau and by Blakemore & Mitsuki and are stated herein on their authority. Statements as to United States taxation in the Prospectus under the caption "Description of the Notes and Guarantee—Taxation" have been passed upon by Milbank, Tweed, Hadley & McCloy and are stated herein on their authority.

UNDERWRITING

The Underwriters named below have severally agreed to purchase from the Bank the following respective principal amounts of the Notes:

<u>Underwriter</u>	<u>Principal Amount</u>
The First Boston Corporation	\$ 8,775,000
Dillon, Read & Co. Inc.	8,775,000
Smith Barney, Harris Upham & Co. Incorporated	8,775,000
The Nikko Securities Co. International, Inc.	8,775,000
ABD Securities Corporation	800,000
Adams & Peck	400,000
Arnhold and S. Bleichroeder, Inc.	800,000
Bache Halsey Stuart Inc.	1,650,000
Basle Securities Corporation	800,000
Bateman Eichler, Hill Richards Incorporated	400,000
Bear, Stearns & Co.	1,100,000
William Blair & Company	400,000
Blyth Eastman Dillon & Co. Incorporated	1,650,000
Dain, Kalman & Quail, Incorporated	400,000
Daiwa Securities America Inc.	1,650,000
Donaldson, Lufkin & Jenrette Securities Corporation	1,650,000
Drexel Burnham & Co. Incorporated	1,650,000
A. G. Edwards & Sons, Inc.	400,000
EuroPartners Securities Corporation	800,000
Goldman, Sachs & Co.	2,250,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	1,650,000
Howard, Weil, Labouisse, Friedrichs Incorporated	400,000
E. F. Hutton & Company Inc.	1,650,000
Keefe, Bruyette & Woods, Inc.	400,000
Kidder, Peabody & Co. Incorporated	1,650,000
Kleinwort, Benson Incorporated	800,000
Kuhn, Loeb & Co.	2,250,000
Lazard Frères & Co.	1,650,000
Lehman Brothers Incorporated	1,650,000
Loeb, Rhoades & Co.	1,650,000
Loewi & Co. Incorporated	400,000
McDonald & Company	400,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,250,000
Morgan Stanley & Co. Incorporated	2,250,000
New Court Securities Corporation	800,000
New Japan Securities International Inc.	800,000
Nomura Securities International, Inc.	1,650,000
Paine, Webber, Jackson & Curtis Incorporated	1,650,000
Piper, Jaffray & Hopwood Incorporated	400,000
Prescott, Ball & Turben	400,000
R. W. Pressprich & Co. Incorporated	800,000
Reynolds Securities Inc.	1,650,000
Robert Fleming Incorporated	800,000
The Robinson-Humphrey Company, Inc.	400,000
L. F. Rothschild & Co.	1,100,000
Salomon Brothers	2,250,000

<u>Underwriter</u>	<u>Principal Amount</u>
Shearson Hayden Stone Inc.	\$ 1,100,000
Shields Model Roland Securities Incorporated	1,100,000
Shuman, Agnew & Co., Inc.	400,000
SoGen-Swiss International Corporation	800,000
Stone & Youngberg	400,000
Stuart Brothers	400,000
Sutro & Co. Incorporated	400,000
Tucker, Anthony & R. L. Day, Inc.	800,000
UBS-DB Corporation	800,000
Warburg Paribas Becker Inc.	1,650,000
Weeden & Co. Incorporated	1,100,000
Wertheim & Co., Inc.	1,650,000
White, Weld & Co. Incorporated	1,650,000
Dean Witter & Co. Incorporated	1,650,000
Wood, Struthers & Winthrop Inc.	800,000
Yamaichi International (America), Inc.	1,650,000
Total	<u>\$100,000,000</u>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the Notes if any are purchased.

The Bank has been advised by The First Boston Corporation, Dillon, Read & Co. Inc., Smith Barney, Harris Upham & Co. Incorporated and The Nikko Securities Co. International, Inc., as Representatives of the Underwriters, that the Underwriters propose to offer the Notes to the public initially at the offering price set forth on the cover page of the Prospectus and, through the Representatives, to certain dealers at such price less a concession of .50% of the principal amount of the Notes; that the Underwriters and such dealers may allow a discount of .25% of such principal amount on sales to other dealers; and that the public offering price and concession and discount to dealers may be changed by the Representatives.

FURTHER INFORMATION

Further information concerning these securities and their issuer is to be found in the Registration Statement on file with the Securities and Exchange Commission.

The undersigned, Governor of The Japan Development Bank, in his official capacity as such Governor, thereunto duly authorized, has supplied the information set forth herein under the caption "The Japan Development Bank", and such information is stated on his authority.

The undersigned, Minister of Finance of Japan, in his official capacity as such Minister, thereunto duly authorized, has supplied the information set forth herein under the caption "Japan", and such information is stated on his authority.

THE JAPAN DEVELOPMENT BANK

By EIICHI YOSHIOKA
Governor

JAPAN

By MASAYOSHI OHIRA
Minister of Finance

日本開發銀行

The Japan Development Bank
(NIPPON KAIHATSU GINKO)

ALASKA
REFERENCE COPY

Please return to

*The Japan
Development
Bank,*

Annual Report

for the year ended
March 31, 1975

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Annual Report

for the year ended March 31, 1975

THE JAPAN DEVELOPMENT BANK

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The Fiscal Year covers one year from April 1 of the year to March 31 of the next year.

Unless otherwise indicated in this report, translations of Japanese Yen into United States dollars are made, for convenience sake, at the rate of 308 Yen to the United States dollar.

The figures in this report are rounded to the nearest final digits.

The term "billion" is used to mean one thousand million.



Although there was a large increase of prices and extraordinarily high interest rates after the oil crisis, during the latter part of the last year these things began to calm down. But new problems appeared the world over — such as world-wide economic recession and increased unemployment, compelling each country to try to overcome these problems without inflation.

Japan, along with other nations, during the past year has faced an economic crisis especially in the sudden increase in the prices of resources and energy, but the persistent effort of the Japanese Government and people helped control this crisis in a short period of time, and now Japan is seeking a way to economic recovery without further inflation and in harmony with world economy.

Since The Japan Development Bank was established in 1951 as a Japanese Government financial institution, it has been supplying long-term development funds to private industries in order to meet various national needs, as they have changed in accordance with the stage of development. Since several years ago the Bank's lending operations have placed emphasis on urban development, regional development, and improvement of the quality of life, including pollution prevention; and now loans extended with a view towards such social development account for some sixty per cent of its total amount of annual loans.

In the present economic society much is focussed on national welfare affected by the current domestic and world situation. The Government is implementing a new long-range plan of administrative guidance on economic operation under a stable economic growth, and on the coordinated utilization, development and maintenance of land.

It is our aim to contribute to sound economic and social development of Japan by further strengthening the Bank's lending activities in these fields in conformity with the policy objectives of the Government.



Eiichi Yoshioka
Governor

Outline of the Bank

Established	April 20, 1951 pursuant to The Japan Development Bank Law.
Purpose	To supply long-term funds for the promotion of industrial development and economic and social progress, supplementing and encouraging the credit operations of private financial institutions.
Capital	234 billion yen (760 million dollars) Wholly owned by the Japanese Government.
Management	The Governor, Deputy-Governor and Auditors are appointed by the Prime Minister, and the Executive Directors and Counselors by the Governor.
Functions	To make long-term loans To subscribe for corporate bonds To guarantee corporate obligations To make investments in specific projects To borrow funds from the Government and abroad To issue external loan bonds
Lending Policy	The amount of loans for each fiscal year is outlined in the Fiscal Investment and Loan Program, which is referred to the Diet for deliberation. The basic policy is established in the "Basic Policy for The Japan Development Bank in Lending its Funds" which is decided by the Cabinet. Loans are extended to private enterprises which are deemed capable of executing the projects in accordance with the policy objectives, and of repaying the loans.
Lending Activities	The Bank's lending activities of recent years are divided into the following fields: (1) Urban development (2) Regional development (3) Improvement of the quality of life (4) Energy development (5) Marine transportation (6) Development of technology (7) Others
Sources of Funds	(1) Capital funds from the Government (2) Borrowings from the Government (3) Borrowings from foreign banks and other financial institutions (4) External loan bonds (5) Repayments of loans (6) Reserved earnings

Business Highlights of the Year

<i>For the Fiscal Year</i>	<u>1974</u>	<u>1973</u>
	Expressed in millions of United States dollars	
Loans	2,051	1,766
Borrowings (net)	1,104	883
Repayments of Loans	841	747
Reserved Earnings	92	85
Others	14	51
Operating Earnings	620	545
Net Earnings	92	87
Addition to Statutory Reserve	68	60
Payment to National Treasury	24	27
Guarantees	114	4

<i>Outstanding as of March 31</i>	<u>1975</u>	<u>1974</u>
Loans	9,774	8,565
Long-term Borrowings	8,151	7,047
From the Government	7,990	6,913
From the World Bank	64	76
External Loan Bonds and Notes	97	58
Reserve for Possible Loan Losses	242	221
Statutory Reserve	599	530
Capital	760	760
Guarantees	993	978

General Economic Conditions

Japan's economy in fiscal 1974 was characterized by a persevering struggle against the trauma caused by "oil crisis". In the "Outlook and Basic Policy" for fiscal 1974, the Government set forth the stabilization of prices, which had been escalating from the previous year, as the most important policy goal for the year.

In order to achieve the goal, the Government adopted a "restrictive demand policy" by the holding down of public investment and by a tight money policy. For example, the Government decided to postpone the construction of big projects, such as the new network of Shinkansen (super-express railway system), the bridges across the Inland Sea between Honshu and Shikoku, etc. And also, the Government held down the rate of increase in the Government's Budget and Fiscal Investment and Loan Program for fiscal 1974 as much as possible.

Along with the fiscal policy, the Bank of Japan continued to take an anti-inflationary monetary policy. The Bank kept the official discount rate, which was raised five times in fiscal 1973, at as high as 9% throughout the year, and gave restrictive "window guidance" to private banks regarding their lending policies.

The Government policy mentioned above resulted in decreased domestic final demand, such as plant and equipment investment, housing construction, etc. Due to the sluggishness of shipment, unintentional inventories had increased rapidly in many industries from the beginning of the year. The ratio of inventory to shipment reached as high as 150% in January 1975, in spite of the curtailment of production, a 8.5% decrease in industrial production over the previous year. Business, obliged to curtail operations, adopted employment adjustment policies, such as "lay-off" and "temporary release". Corporate earnings in most industries had, needless to say, decreased steadily throughout the year. Consumption expenditure, which had supported business activities even at the bottom of the trade cycle, did not increase in the year as before, only a 2.3% increase at constant price over the previous year. Plant and equipment investment was inactive, except for pollution-control, etc., and recorded a 13.4% decrease in real terms.

Business finance was very tight. While demand for funds necessary to cope with stockpiling and the reduction of production increased, city banks' loans were restrained by policy. Reflecting these situations, banks' lending rates rose steadily throughout the year.

Thus, the Government policy of restraining total demand took effect gradually on the economy as a whole. The policy goal, the stabilization of prices, somehow came to be achieved. The annual rate of increase in wholesale price, which was around 35% at the beginning of the year, began to slow down from autumn to less than 5% at the end of the year. Also, the annual rate of increase in consumer price stood at 14% at the end of fiscal 1974, fulfilling the Government's promise of holding it to less than 15%. As a result, the increase in wage rate attained through so-called "spring offensive" of labor was moderated to 13.1% in 1975 from 32.9% in 1974.

The international balance of payments of the year was 3.4 billion dollars deficit, about one-fourth of 13.4 billion dollars deficit in the previous year. Such an improvement of balance of payments was brought about by the increase in surplus of trade balance from 789 million dollars to 4,097 million dollars and by the decrease in deficit of the international long-term capital transaction from more than 9 billion dollars in fiscal 1973 to 2 billion dollars in fiscal 1974. The official foreign reserve increased by 1.8 billion dollars in the course of the year and reached 14.2 billion dollars, the pre "oil crisis" level, at the end of March 1975.

With these observations in mind, it could be said that, as far as the stabilization of prices and improvement of the international balance of payments are concerned, the Japanese economy seems to have begun to adapt itself to the new situation caused by "oil crisis". However, such adaptation was attained at the cost of a serious economic recession, such as business difficulties, unemployment, etc. Fiscal 1974 is also characterized by the fact that the Japanese economy experienced for the first time a 0.6% decline in the real growth.

Since last February the Government has begun a shift in economic policy, from restricting demand to stimulating the economy, which is composed of three successive anti-recession packages. And the Bank of Japan reduced the official discount rate twice since last April, from 9% to 8%. Steady decline of business activities was halted by these anti-recession measures, and the economy is bottoming out now.

Symbolically speaking, the Japanese economy is now on the course of the orbit correction from a high rate growth to a stable rate growth. Such an orbit correction, or an adaptation of the Japanese economy as a whole to the new situation after the "oil crisis", is expected to be achieved by the end of fiscal 1975. On the basis of such an expectation the Government is studying a new long-term economic and social plan starting in fiscal 1976, in which particular attention will be paid to the availability of natural resources including food, minerals and petroleum. Nevertheless, the long-term objectives of national welfare and international cooperation, which the 1973 Plan laid down, will not be changed even in the new plan.

Operation of the Bank for the Year

Fiscal Investment and Loan Program

The Bank's lending funds are predominantly supplied through the Fiscal Investment and Loan Program, which is referred to the Diet for deliberation independently of the Government General Account Budget every year, and plays an important role in national economic policy. The sources of funds for the Program come mostly from the Postal Savings Fund, the Welfare Annuity Insurance Fund and the National Pensions Fund. And this Program indicates the allocation of those funds to:

- (i) Government financial institutions, including The Japan Development Bank, the Export-Import Bank of Japan and the Small Business Finance Corporation,
- (ii) Government corporations, including the Japanese National Railways, the Japan Highway Public Corporation and the Japan Housing Corporation, and
- (iii) local governments.

The Program in fiscal 1974 amounted to 7.923 billion yen, equivalent to 46.7% of the General Account Budget. The amount allocated for the Bank's original lending program for fiscal 1974 was 398 billion yen, up 3.2% from the previous year.

Fiscal Investment and Loan Program by Main Organizations

For the Fiscal Year	1974		1973		Change
	In billions of yen	Expressed in millions of U.S. dollars			
The Japanese National Railways	850	2,760	2,168	592	
The Housing Loan Corporation and the Japan Housing Corporation	1,186	3,851	3,204	647	
The Small Business Finance Corporation and two other institutions for small business	1,062	3,448	2,851	597	
The Japan Development Bank	398	1,292	1,252	40	
The Export-Import Bank of Japan	617	2,003	1,784	219	
The Japan Highway Public Corporation and three other corporations for highways	687	2,231	2,116	115	
Local governments	1,410	4,578	4,091	487	
Sub-total	6,210	20,163	17,466	2,697	
Others	1,713	5,561	5,019	542	
Total	7,923	25,724	22,485	3,239	

Basic Policy for the Bank in Lending its Funds

The Bank's lending activities are carried out in conformity with the "Basic Policy for The Japan Development Bank in Lending its Funds," which is decided by the Cabinet each year. This Basic Policy describes in very broad terms the policy considerations to be taken into account by the Bank in its lending activities.

The "Basic Policy" for fiscal 1974 which was decided at the Cabinet Meeting on April 26 1974, states:

The Bank's lending operations in fiscal 1974 shall be carried out as is shown below in accordance with the Government's basic attitude for the operation of the Japanese economy for the year.

The Bank shall strengthen the basic structure for sound development of the Japanese economy and society so as to advance the national welfare in line with the changes in Japan's internal and external economic conditions. For this purpose, the Bank shall give first importance to:

- (1) urban development and modernization of the system for distribution of goods and merchandise,
- (2) balanced regional development,
- (3) improvement of the quality of life principally through pollution-prevention, etc.,
- (4) strengthening the basic structure of the economy such as energy and transportation, and
- (5) development of technology and creation of a more knowledge-intensive industrial structure.

Loans

The loans extended in fiscal 1974 amounted to 632 billion yen, compared to the previous year's 544 billion yen.

The total outstanding amount of the Bank's loans as of March 31, 1975 was 3,010 billion yen. As of the same date, the cumulative total of loans extended, during the twenty four years since the establishment of the Bank, reached 4,787 billion yen.

The Bank's lending operations in fiscal 1974 were divided into seven fields – (i) urban development (ii) regional development (iii) improvement of the quality of life (iv) energy and resources development (v) marine transportation (vi) development of technology and (vii) others.

The lending operations were characterized as follows:

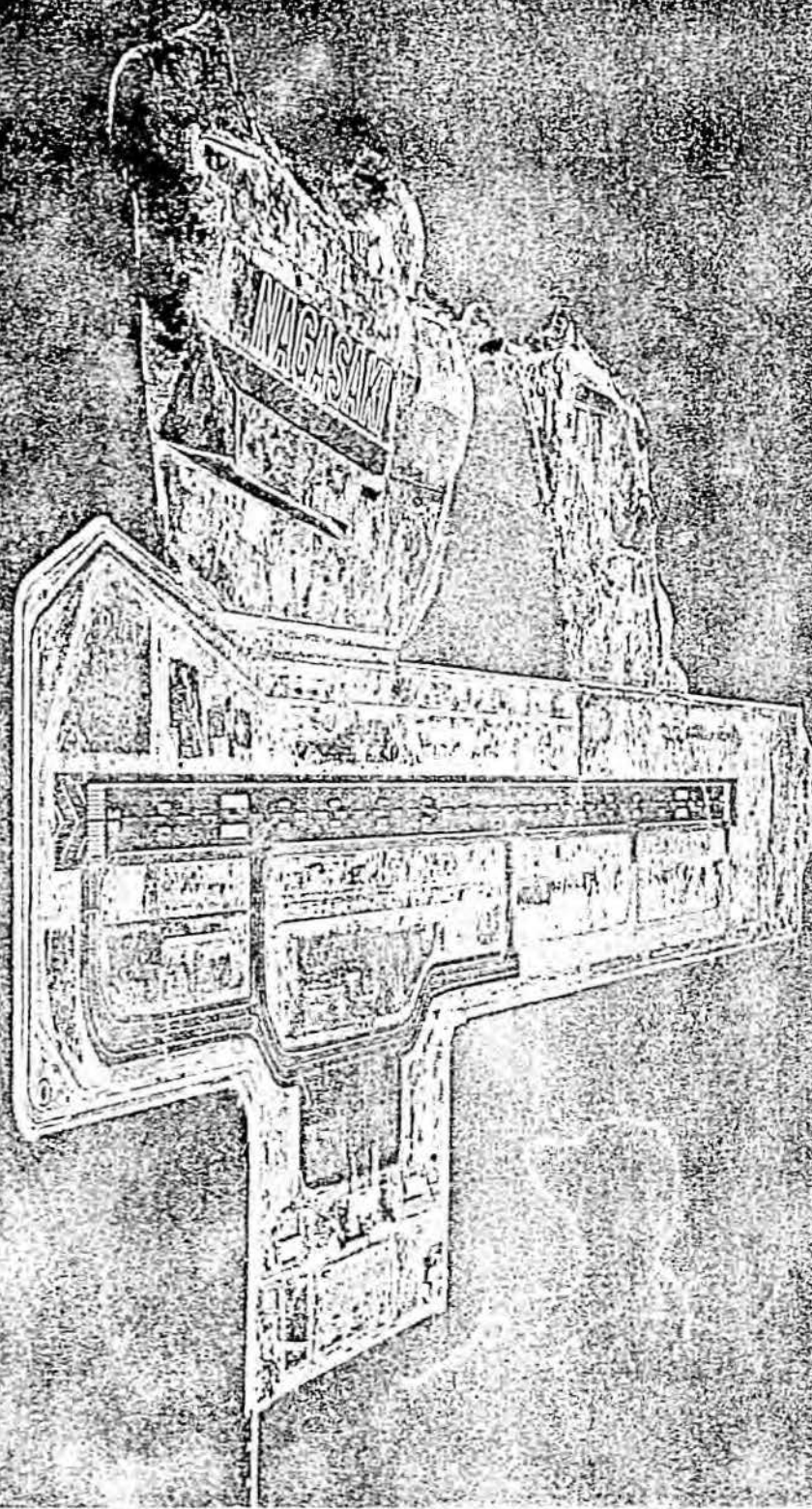
The loans for urban and regional development, and improvement of the quality of life aimed at creating better social environment of the nation by alleviating over-congestion and various forms of pollution in large cities, etc., have been increasing conspicuously in recent years and reached 387 billion yen in fiscal 1974, comprising more than half of the total loans for the year.

In line with the financial and monetary conditions in Japan, the standard interest rate of the Bank remained high since the previous year and was once raised during fiscal 1974 by 0.5% to 9.9% in October 1974.

Loans by Project

For the Fiscal Year	1974		1973	Change
	In billions of yen	Expressed in millions of United States dollars		
Urban development	109	354	328	26
Regional development	100	324	263	61
Improvement of the quality of life ...	178	578	317	261
Energy development	64	207	207	0
Marine transportation	79	256	314	-58
Development of technology	63	205	185	20
Others	39	127	152	-25
Total	632	2,051	1,766	285

The new Nippon Bank's activity is directed on a wide scale to solve the major problems in Japan, such as the promotion of urban and regional development, etc.



Urban Development

In order to remedy the excessive congestion in large city areas (Tokyo, Osaka and Nagoya) the Bank in fiscal 1974 assisted projects for (1) strengthening of transport capacity of private railroads, (2) redevelopment of large city areas and (3) modernization of systems for distribution of goods and merchandise.

Projects for strengthening of transport capacity of private railroads included not only those for increasing mass transportation capacity such as construction of new lines and double-tracking, but also those for securing transportation safety such as improved grade crossings and grade separation.

The projects for redevelopment of large city areas were those carried out by private developers for:

- (i) renewal of designated areas and facilities in business districts,
- (ii) provision of central airconditioning facilities for particular areas,
- (iii) development of land for housing and construction of shopping center facilities in new towns,
- (iv) construction of community centers,
- (v) construction of common tunnels for underground distribution of electricity, gas, water, etc.
- (vi) construction of public parking facilities, and
- (vii) construction of airport-related facilities.

The projects for modernization of systems for distribution of goods and merchandise were:

- (i) construction of merchandise distribution centers,
- (ii) provision of warehouses, cold storage, truck terminals and other harbor-related facilities, and
- (iii) construction of distribution facilities for manufacturers and supermarkets.

In fiscal 1974 the Bank's loans for such projects amounted to 109 billion yen as compared to 101 billion yen in the previous year. Of the total 109 billion yen, loans under (2) above were the largest, 42.8%; followed by loans under (1), 41.3%; and (3), 15.9%.

Regional Development

In order to promote balanced regional development among all regions, the Bank in fiscal 1974 had the basic aim of promoting economic and social progress in the less developed regions (except Hokkaido and Tohoku — which are taken care of by The Hokkaido Tohoku Development Corporation) and paid particular attention to:

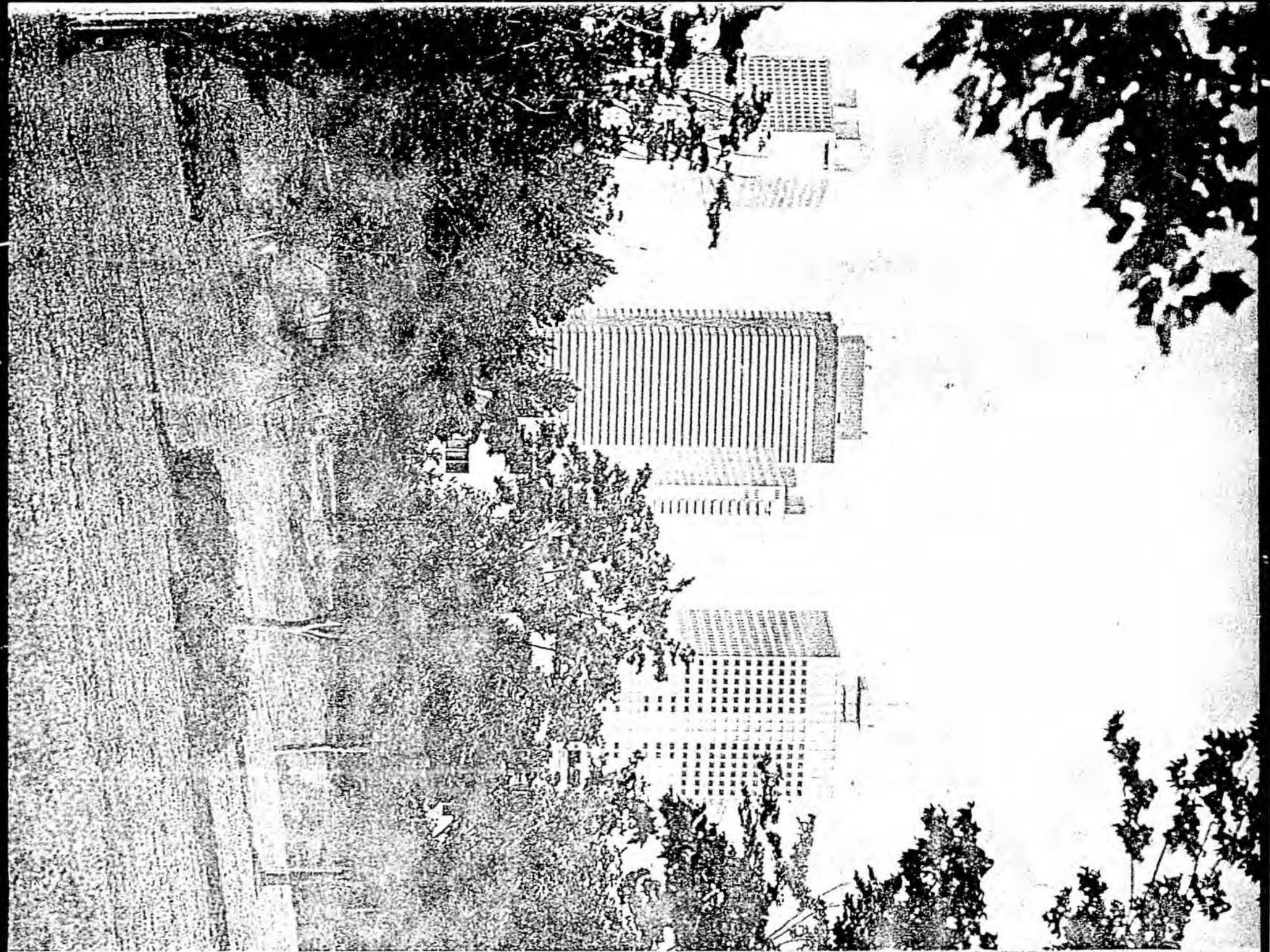
- (1) improvement of urban functions of provincial city areas,
- (2) inducing optimum location of industries, and
- (3) fostering of industries suitable to local conditions.

Projects for improving urban functions of provincial city areas included (i) urban renewal, city gas, parking facilities and hotels (ii) distribution centers, truck terminals, warehouses, silos and harbor-related facilities, (iii) ferry boats and cargo ships, and private railways and buses.

Projects for inducing optimum location of industries and for fostering of industries suitable to local conditions included (i) location of industries in the regions specifically designated for induction of industries under the "Law for Relocation of Industries," and (ii) projects to be carried out by local enterprises.

In Fiscal 1974 the Bank made loans amounting to 100 billion yen in this field, compared with 81 billion yen in the previous year. Loans under (3) above have increased markedly in fiscal 1974, comprising 38% of the total 100 billion yen.

High-rise buildings being const.
for urban redevelopment at suburbs
of Tokyo



Improvement of the Quality of Life

For one of the most important policy objectives at present in Japan – improvement of national life, the Bank in fiscal 1974 assisted three categories of projects: (1) pollution prevention, (2) city gas and (3) food supply.

The projects for pollution prevention were those either obligated by various anti-pollution laws including "Basic Law on Anti-Pollution Measure," or regarded as necessary to conform to government environmental standards. There were two types of facilities for pollution prevention in fiscal 1974: (i) facilities for prior reduction or elimination of materials which would cause pollution, such as facilities for reducing sulphur from oil, LNG power generation, and conversion to non-pollution production processes and (ii) facilities for treatment of by-product materials which otherwise would bring about pollution, such as wastes disposal and treatment of soot and smoke.

Projects for city gas were (i) city gas processing plants from LNG and LNG storage facilities, and (ii) specific pipe lines for distribution of city gas (mostly LNG based) in large cities.

Projects related to food were utility facilities and manufacturing plants located in industrial estates for food.

The Bank's loans in this field in fiscal 1974 increased to 178 billion yen, from 98 billion yen in the previous year. Loans under (1) above increased conspicuously to 163 billion yen from 76 billion yen in the previous year; and loans under (2) and (3) together decreased to 15 billion yen.

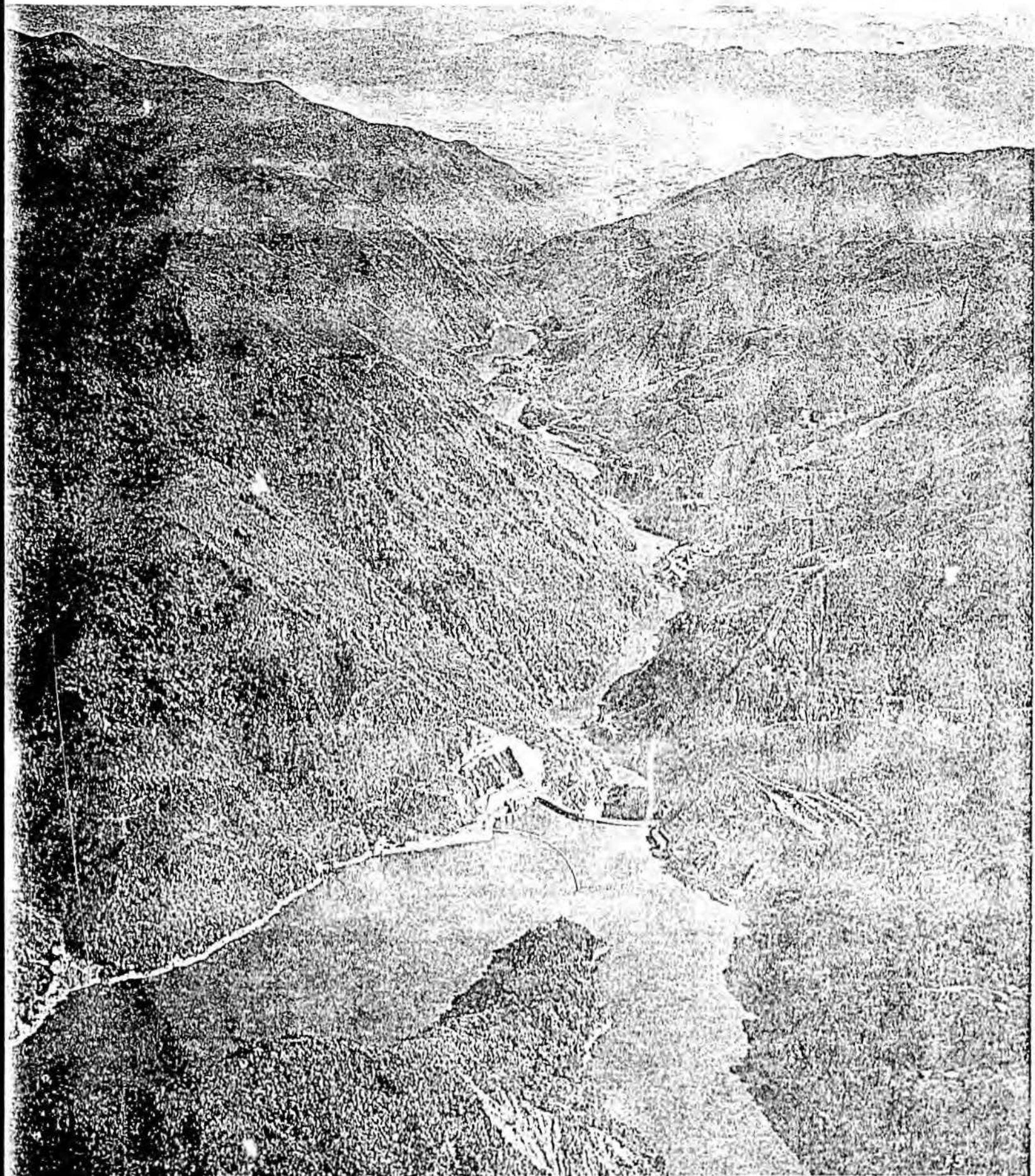
Energy Development

In order to contribute to stable supply and effective use of energy in Japan, the Bank in fiscal 1974 assisted projects in three categories of energy development related to: (1) nuclear power (2) oil industry and (3) other domestic energy resources.

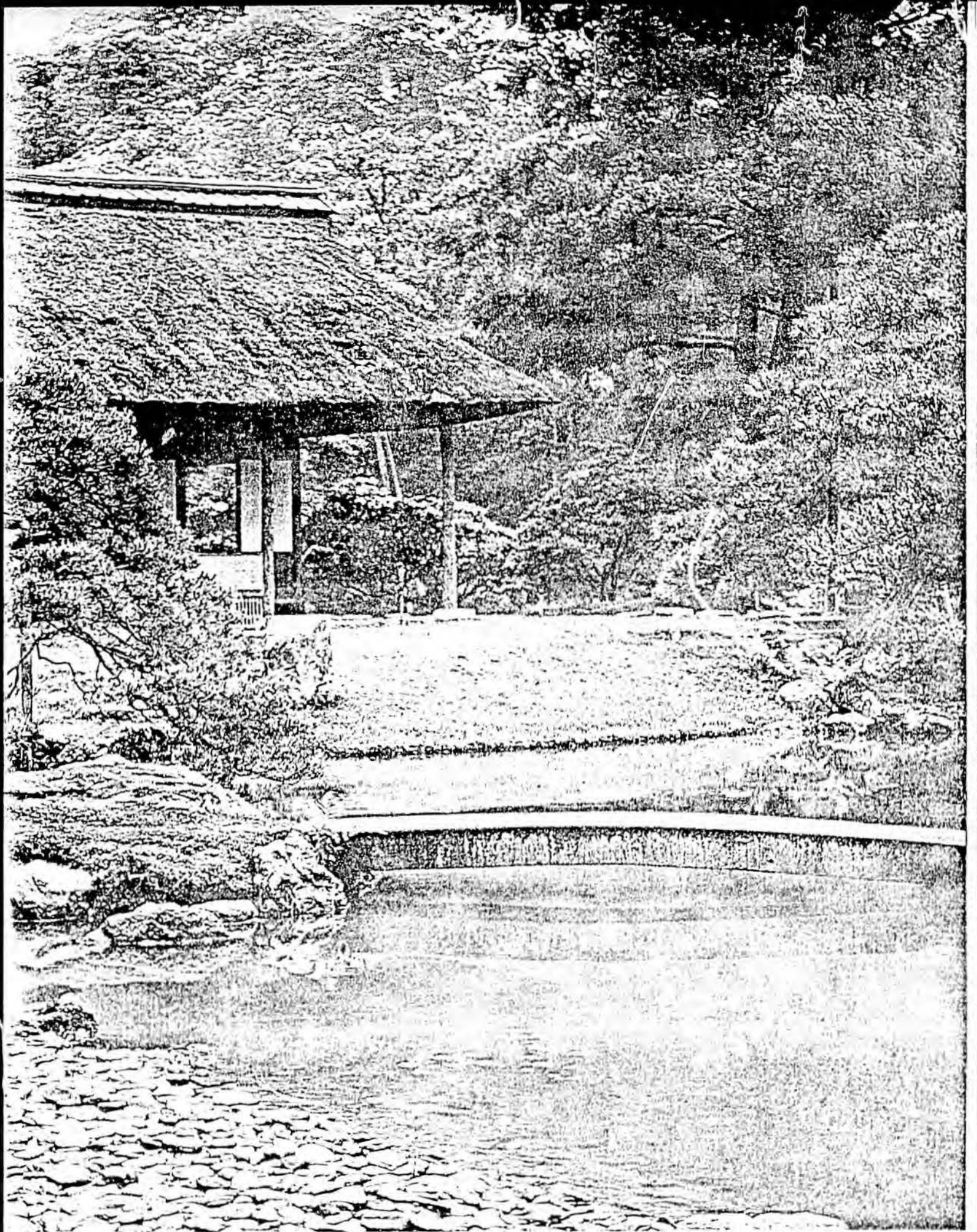
Projects for nuclear power were construction of nuclear power generating plants, including domestic manufacture of nuclear reactors. Oil industry loans were mainly for the construction of refineries and distribution systems by independent domestic oil companies and for the construction of crude oil storage facilities and the development of the oil resources of Japan's continental shelf. Loans for other domestic energy resources are for the urgent development of water power stations, the development of geothermal power stations and joint owned industrial plants.

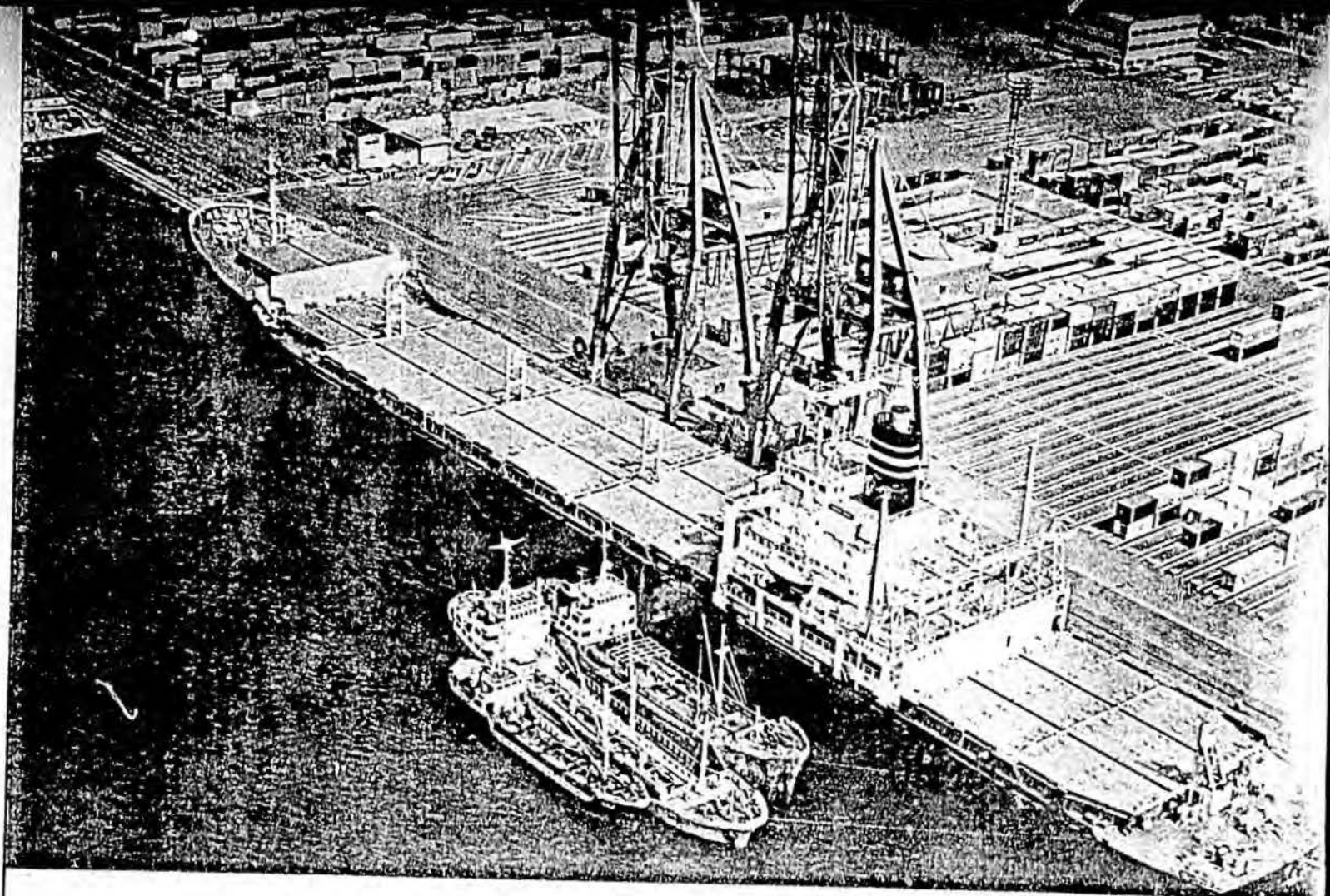
The Bank's loans for energy development amounted to 64 billion yen in fiscal 1974; loans under (1) above were 39 billion yen, loans under (2) 21 billion yen and loans under (3) 4 billion yen.

Since the "oil crisis", attention has been focused again on hydroelectric and other non-petroleum power sources.









One of the large container ships in port

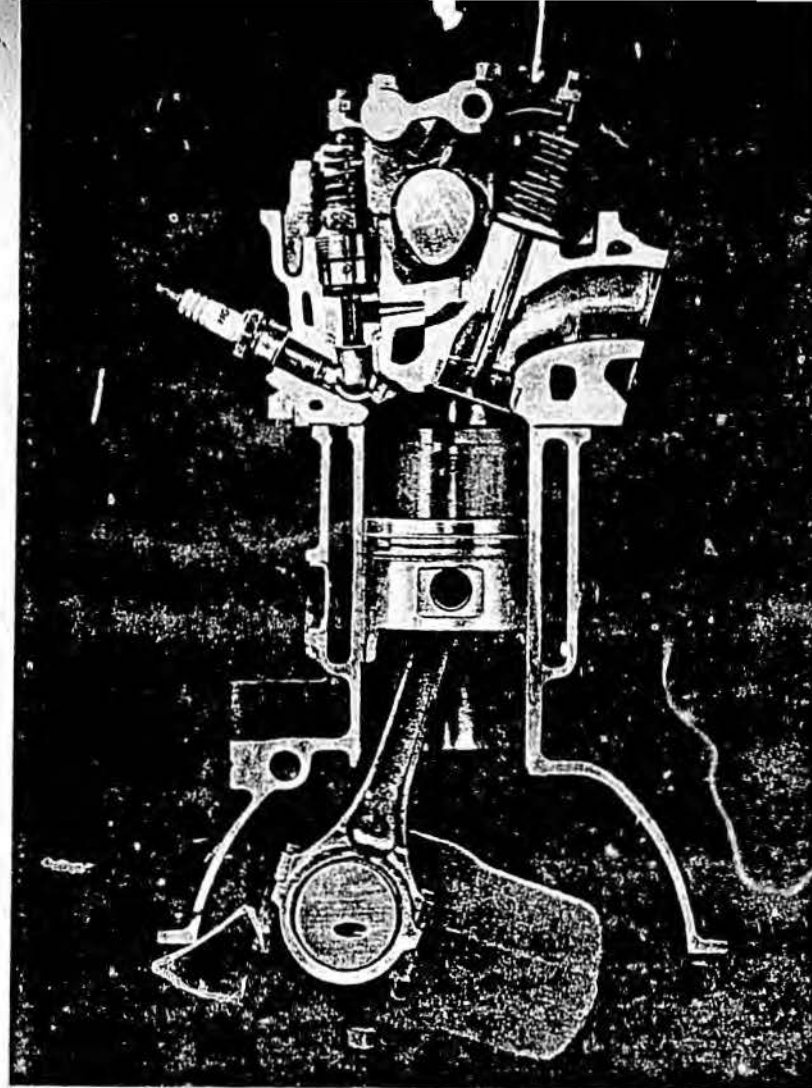
Marine Transportation

The Bank has been playing an important role in assisting the Japanese shipping industry to build ocean-going vessels in accordance with the government's "Shipbuilding Program" for each year.

In fiscal 1974, the lending emphasis was placed on increasing transport capacity, and on the construction of new types of ocean-going vessels to cope with technological development in the industry, which are represented by container ships to replace conventional-type liners and by multipurpose carriers.

However, new loans have declined during the past two years due to the world-wide recession from the time of "oil crisis".

In fiscal 1974 the Bank extended loans amounting to 79 billion yen for new vessels aggregating 1939 thousand gross ton, compared to 1985 thousand gross ton of the previous year. Breaking down the total of 1939 thousand gross ton, 102 thousand gross ton was container ships, 1385 thousand gross ton oil tankers and 452 thousand gross ton special carriers, etc.



CVCC (Compound Vortex Controlled Combustion) automobile engine, an example of what Japan has developed with its own technology for pollution prevention.

Development of Technology

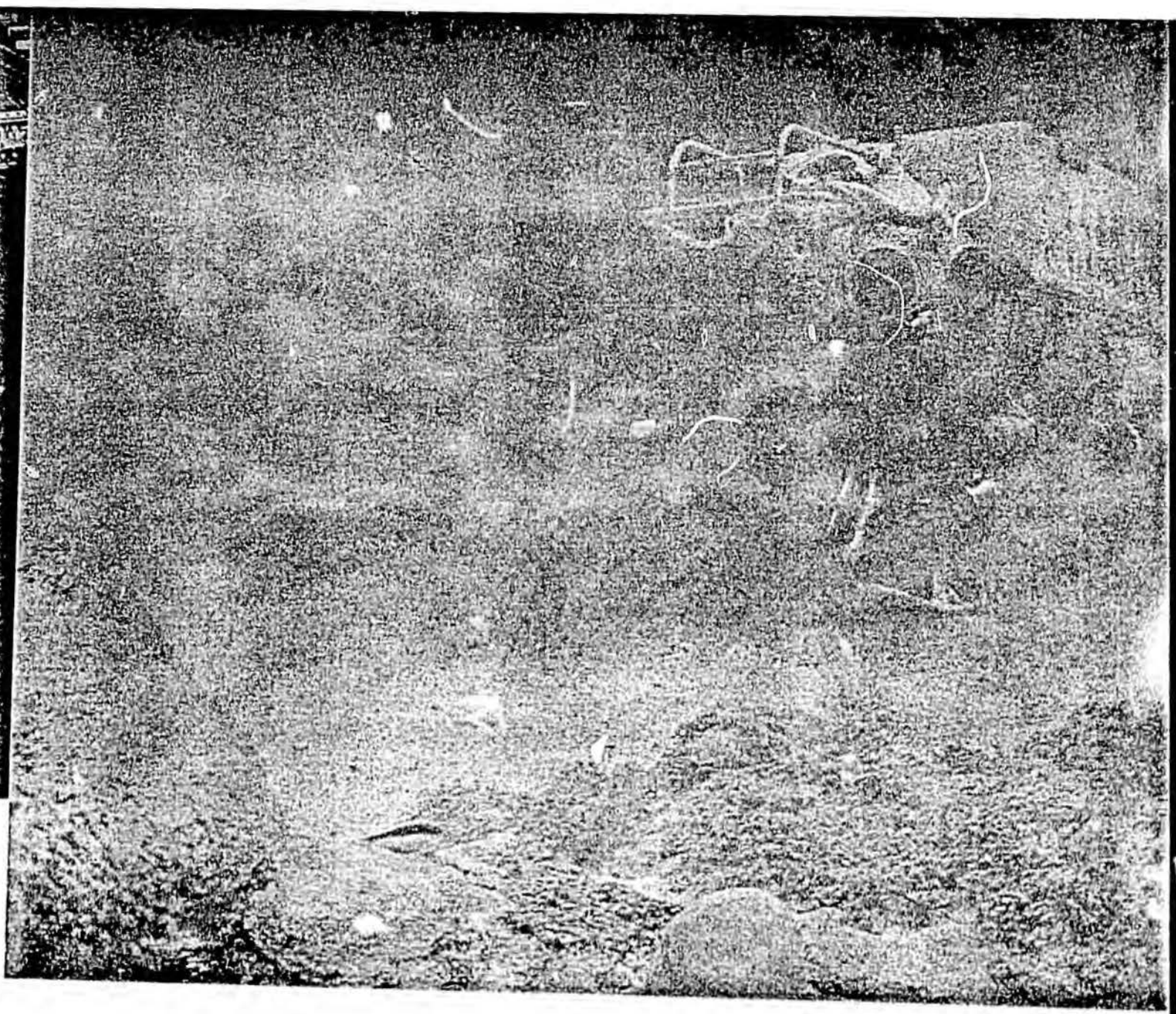
The economic development of Japan has been largely dependent upon foreign technologies and know-how. In order to maintain sound economic and social development in the future, however, Japan must develop its own technology and promote knowledge intensification of the industrial structure. In this context, the Bank was called upon to give financial assistance for technological development in the private sector.

Projects in this field for fiscal 1974 were divided into the following three categories:

- (1) promoting development of information system of electronic computers through making financial assistance for leasing of domestically produced electronic computers.
- (2) promoting domestic technological development.
- (3) raising the technological level of electronics and machinery industries, in accordance with the specific law promulgated in March 1971.

Projects under (2) above were development of new products and processes, with emphasis on development of technologies related to pollution and resource saving, such as suspended furnace type of cement kiln and CVCC automobile engine, etc.

The Bank's loans in this field amounted to 63 billion yen in fiscal 1974 (for developing information system of electronic computers 32 billion yen, for promoting domestically developed technology 22 billion yen, for raising technological level of electronics and machinery industries 9 billion yen) compared to 57 billion yen in the previous year.



Others

The Bank assisted in fiscal 1974 various other projects for:

- (1) Decentralization of industrial plant to remedy over-congestion in large cities and promote more optimum location of industries.
- (2) Safety equipment in specified buildings and ferrv boats.
- (3) Development of good manufacturing process of drugs. ("GMP")
- (4) Development of prefabricated housing manufacturing.
- (5) Realignment of specific industries including textiles, equipment related to nuclear fuel, manufacturing plant for electronic computers, equipment for developing computer software, ocean development including drilling rigs for off-shore development, welfare facilities, etc.

The Bank's loans for the above amounted to 39 billion yen in fiscal 1974.


Guarantees

The Bank has the authority to guarantee the repayment by others of borrowings incurred for purposes consistent with those of the Bank. The Bank has generally limited the use of its guarantee power to foreign currency indebtedness incurred by Japanese companies in connection with purchases by them of plant and equipment. Guarantees have been issued both to guarantee the payment of principal and interest on borrowings by Japanese companies from foreign banks (principally the Export-Import Bank of the United States) and to guarantee the payment of principal and interest on long-term credit obtained by such companies from foreign suppliers.

Guarantee business in fiscal 1974 is characterized as follows:

- (1) The Bank, which had guaranteed the repayment of borrowings mainly from banks in the United States, guaranteed for the first time those in other countries such as Canada, Britain and etc.
- (2) The Bank guaranteed for the first time the repayment of external bonds issued by Japanese airline.

The amount of guarantee the Bank made during fiscal 1974 was 114 million U.S. dollars and total guarantees outstanding at the end of fiscal 1974 stood at 979 million U.S. dollars, of which approximately 70% consisted of guarantees issued with respect to indebtedness incurred by five electric power companies and approximately 30% consisted of the same by three airlines.



Under water research vessel in operation

Sources of Funds

Borrowings from the Government and repayments of loans have been the principal sources of funds for the Bank. The amount of the borrowings from the Government is determined in the Fiscal Investment and Loan Program each fiscal year, and the borrowings (net) in fiscal 1974 was 332 billion yen. The repayments of loans amounted to 259 billion yen in the year.

Borrowings from foreign banks and other financial institutions have been so far entirely those from the International Bank for Reconstruction and Development (the World Bank), amounting to 313 million U.S. dollars equivalent. The Bank made relendings to private Japanese companies such as the electric power, iron and steel and machinery industries of the loans from the World Bank. Since 1961, however, no loans have been received from the World Bank. During fiscal 1974, the Bank made repayment of 4 billion yen (12 million U.S. dollars equivalent) to the World Bank.

The Bank issued Government guaranteed external loan bonds and notes seven times in the international capital markets (five issues in New York market, one in Euro-dollar market, and one in the Swiss market) since 1961. The aggregate amount of such bonds and notes outstanding as of March 31, 1975 was 100,922 U.S. dollars equivalent. During fiscal 1974 the Bank successfully issued 50 million dollars 5 year notes, coupon 8 1/2%, in New York capital market, which were rated at "triple A", the best ranking, by two rating authorities for the first time in Japan.

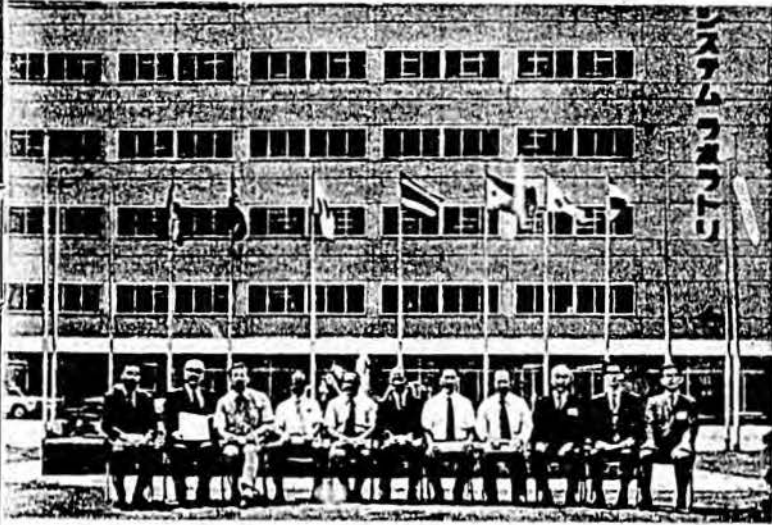
Reserved earnings in fiscal 1974 amounted to 28 billion yen, and the Bank's sources of funds in the year are summarized below:

The Bank's Sources of Funds

For the Fiscal Year

	1974	1973	Change
	In billions of yen	Expressed in millions of United States dollars	
Government investment	0	0	0
Borrowings (Net)			
From the Government	332	1,077	169
From the World Bank	-4	-12	6
External loan bonds and notes . .	12	39	46
Sub-Total	340	1,104	221
Repayments of loans	259	841	94
Reserved earnings	28	92	7
All others	4	14	-37
Total	631	2,051	285

Development Finance Training Course



The Bank has held Development Finance Training Courses for management personnel of foreign financial institutions, every year since 1967.

The purpose of these courses has been to provide comprehensive knowledge of development finance. Various aspects of the Japanese economy and industries are also introduced. The Bank is happy to receive trainees from overseas, in order to exchange knowledge and experience of development financing activities and to promote mutual understanding.

In fiscal 1974, the Bank received a total of fifty guest-trainees in sequence. The chief courses were:

- (1) Development Finance Training Course 1974
(July - August 1974, for six weeks)

The Bank accepted six participants; three members of the Development Bank of Indonesia (BAPINDO), one from the Development Bank of the Philippines, one from the Bank of Korea, and one from the Ministry of Industry (Thailand).

- (2) KDB Guest Trainee Course
(November-December 1974, for six weeks)

The Bank accepted two participants from the Korea Development Bank.

- (3) Project Feasibility Study Training Course
(February-March 1975, for four weeks)

The Bank accepted seven participants from six Asian countries through the Asian Productivity Organization.

Financial Statements of the Year

Balance Sheet

ASSETS

	F.Y. 1974		F.Y. 1973	
	In thousands of yen		Expressed in thousands of U.S. dollars	
Cash in banks	¥ 1,623,788	\$ 5,272	\$ 17,254	
Government securities, at cost	18,110,951	58,802	30,560	
Loans in Japanese currency	2,990,779,432	9,710,323	8,488,431	
Loans in foreign currencies	19,688,873	63,925	76,394	
Land, buildings and miscellaneous equipment	4,926,142	15,994	14,429	
Accrued interest receivable	24,532,113	79,650	76,401	
Other assets	1,139,194	3,698	3,221	
Unamortized discount on external loan bonds	339,639	1,103	485	
	<u>¥3,061,140,132</u>	<u>\$ 9,938,767</u>	<u>\$ 8,707,175</u>	

LIABILITIES AND CAPITAL

	F.Y. 1974		F.Y. 1973
	In thousands of yen	Expressed in thousands of U.S. dollars	
<i>Liabilities:</i>			
Long-term borrowings			
From the Government	¥2,461,054,000	\$ 7,990,435	\$ 6,912,971
From the International Bank for Reconstruction and Development	19,688,873	63,925	76,394
External loan bonds	29,792,750	96,730	57,510
Undisbursed balance of loans in			
Japanese currency	41,033,000	133,224	109,929
Accrued interest payable	9,377,647	30,447	17,621
Payable to the National Treasury	576,529	1,872	4,204
Other liabilities	6,724,421	21,832	17,638
Total Liabilities	2,568,247,220	8,338,465	7,196,267
Reserve for possible loan losses	74,583,059	242,153	221,179
Capital	233,971,000	759,646	759,646
Statutory reserve	184,338,853	598,503	530,083
	¥3,061,140,132	\$ 9,938,767	\$ 8,707,175
Guarantees of credit and other contin- gent liabilities	(301,614,669)	(1,057,562)	(1,060,510)

Includes undisbursed balance.

Includes the amount due within one year.

Profit after deduction of statutory reserve has to be paid into the National Treasury.

Capital is wholly owned by the Government.

Financial Statements of the Year (continued)

Statement of Earnings

	F.Y. 1974		F.Y. 1973
	In thousands of yen	Expressed in thousands of U.S. dollars	
<i>Operating earnings</i>			
Interest on loans in Japanese currency	¥188,443,116	\$ 611,828	\$ 531,302
Interest on loans in foreign currencies	1,390,192	4,514	4,938
Commission on guarantees of credit	458,026	1,487	1,416
Income on Government securities	582,212	1,890	3,808
Total operating earnings	<u>190,873,546</u>	<u>619,719</u>	<u>541,464</u>
<i>Interest expenses</i>			
On borrowings in Japanese currency	146,022,988	474,101	404,977
On borrowings in foreign currencies and external loan bonds and notes	2,530,279	8,215	8,325
Total interest expenses	<u>148,553,267</u>	<u>482,316</u>	<u>413,302</u>
Earnings before administrative and other expenses	<u>42,320,279</u>	<u>137,403</u>	<u>128,162</u>
<i>Administrative and other expenses</i>			
Administrative expenses	7,165,494	23,264	17,610
Depreciation	238,026	773	792
Other (income) and expenses net	(274,195)	(891)	(1,000)
Total administrative and other expenses	<u>7,129,325</u>	<u>23,146</u>	<u>17,402</u>
Earnings before provision for possible loan losses	35,190,954	114,257	110,760
Provision for possible loan losses	6,859,374	22,271	23,766
NET EARNINGS	<u>¥28,331,580</u>	<u>\$91,986</u>	<u>\$86,994</u>

Appropriation of Net Earnings

	F.Y. 1974		F.Y. 1973	
	In thousands of yen	Expressed in thousands of U.S. dollars	In thousands of yen	Expressed in thousands of U.S. dollars
For addition to Statutory Reserve	¥ 21,073,278	\$ 68,420	¥ 21,073,278	\$ 59,955
For payment to the National Treasury	7,258,302	23,566	7,258,302	27,039
	<u>¥ 28,331,580</u>	<u>\$ 91,986</u>	<u>¥ 28,331,580</u>	<u>\$ 86,994</u>

The Bank is exempt from income taxes. Instead it is required to pay to the National Treasury each year the portion of net earnings remaining after provision for statutory reserve under the provisions of The Japan Development Bank Law.

Sources of Funds

	F.Y. 1974		F.Y. 1973	
	In thousands of yen	Expressed in thousands of U.S. dollars	In thousands of yen	Expressed in thousands of U.S. dollars
Government Investment	¥ 0	\$ 0	¥ 0	\$ 0
Borrowings (net)				
From the Government	331,859,000	1,077,464	331,859,000	908,489
From the International Bank for Recon- struction and Development	-3,840,441	-12,469	-3,840,441	-18,230
External Loan Bonds	12,079,701	39,220	12,079,701	-7,078
Repayments of Principal	259,151,669	841,402	259,151,669	747,487
Reserved Earnings from Operations ...	28,229,885	91,655	28,229,885	84,751
All Others	4,174,186	13,553	4,174,186	50,601
Total ...	<u>631,654,000</u>	<u>\$ 2,050,825</u>	<u>631,654,000</u>	<u>\$ 1,766,020</u>

Consists of statutory reserve, and non-cash charges to earnings substantially all of which relate to provision for possible loan losses.

Represents the net change in other assets than loans and in other liabilities than borrowings during the period covered.

Total is equal to the aggregate amount of authorizations made during the fiscal year.

Financial Statements of the Year (continued)

Loans

	F.Y. 1974		F.Y. 1973	
	In thousands of yen		Expressed in thousands of U.S. dollars	
Urban Development	¥109,325,000	\$ 354,951	\$ 327,679	
Regional Development	99,855,000	324,205	263,182	
Improvement of the Quality of Life	178,089,000	578,211	316,876	
Energy Development	64,175,000	208,360	207,130	
Marine Transportation	78,616,000	255,247	313,951	
Development of Technology	62,900,000	204,221	185,046	
Other Projects	38,694,000	125,630	151,795	
Total	<u>631,654,000</u>	<u>\$ 2,050,825</u>	<u>\$ 1,766,020</u>	

Guarantees

	F.Y. 1974		F.Y. 1973	
	In thousands of yen		Expressed in thousands of U.S. dollars	
Electric Power	—	\$ 16,068	\$ 3,714	
Air Transportation	—	97,912	0	
Others	—	0	0	
Total	—	<u>\$ 113,980</u>	<u>\$ 3,714</u>	

Report of Auditors

Tokyo, May 19, 1975

Mr. Eiichi Yoshioka, Governor
The Japan Development Bank
9-1, Otemachi 1-chome
Chiyoda-ku, Tokyo

We have audited the balance sheet of The Japan Development Bank as of March 31, 1975 and the related statements of earnings for the business year ended on that date. Our audit was made in accordance with The Japan Development Bank Law, Article 33.

The accounting principles and procedures followed by The Japan Development Bank are generally followed by banks in Japan and the aforesaid balance sheet and statements of earnings have been prepared in conformity with such accounting principles and procedures applied, in all material respects, on a consistent basis.

The accompanying balance sheet as of March 31, 1975 and statement of earnings for the business year ended on that date have been prepared for purposes of this annual report by reclassifying the aforesaid financial statements. We have reviewed the reclassifications made in preparing the accompanying financial statements and, in our opinion, such statements, as reclassified, present fairly the financial position of The Japan Development Bank as of March 31, 1975 and the results of its operations for the business year ended on that date on a consistent basis.

Toshio Fujita

Toshio Fujita
Auditor
The Japan Development Bank

Chuichi Takemura

Chuichi Takemura
Auditor
The Japan Development Bank

Five Year Development

Balance Sheet for the fiscal year

(in millions of U.S. dollars)

	1970	1971	1972	1973	1974
<i>Assets</i>					
Cash in banks	28	42	7	17	5
Government securities, at cost	22	24	91	31	59
Loans in Japanese currency	5,735	6,602	7,452	8,489	9,710
Loans in foreign currencies	154	115	94	76	64
Land, buildings and miscellaneous equipment	12	14	15	14	16
Accrued interest receivable	40	57	63	76	80
Other assets	4	3	3	4	5
Total	5,995	6,857	7,725	8,707	9,939
<i>Liabilities, Reserves and Capital</i>					
Long-term borrowings					
From the Government	4,337	5,167	6,004	6,913	7,990
From the World Bank	154	115	95	76	64
External loan bonds	91	72	65	58	97
Undisbursed balance of loans in					
Japanese currency	84	98	100	110	133
Accrued interest payable	21	19	17	17	30
Payable to the National Treasury	8	21	6	4	2
Other liabilities	7	9	11	18	22
Total liabilities	4,702	5,501	6,298	7,196	8,338
Reserve for possible loan losses	163	179	197	221	242
Capital	760	760	760	760	760
Statutory reserve	370	417	470	530	599
Total reserves and capital	1,293	1,356	1,427	1,511	1,601
Total	5,995	6,857	7,725	8,707	9,939

Statement of Earnings for the fiscal year (Note)

(in millions of U.S. dollars)

	1970	1971	1972	1973	1974
Operating earnings	375	428	472	541	620
Interest expenses	265	309	356	413	482
Earnings before administrative and other expenses	110	119	116	128	137
Administrative and other expenses	13	1	15	17	23
Earnings before provision for possible loan losses	97	118	101	111	114
Provision for possible loan losses	7	16	18	24	22
Net earnings	90	102	83	87	92
Addition to statutory reserve	41	47	53	60	68
Payment to National Treasury	49	55	30	27	24

Note:

Between April 1, 1967 and March 31, 1972, the Bank was changing its policy of recording interest on loans from a cash basis to an accrual basis prorated for the five years. Accordingly, F.Y. 1969 and F.Y. 1970 are in process of adjustment to an accrual basis.

Loans for the fiscal year

(in millions of U.S. dollars)

	1970	1971	1972	1973	1974
Urban development	150	201	240	328	355
Regional development	169	216	240	263	324
Improvement of the quality of life	13	94	195	317	578
Energy development	122	136	149	207	208
Marine transportation	347	374	440	314	255
Development of technology	158	227	130	185	204
Others	151	132	101	151	127
Total	1,110	1,380	1,495	1,766	2,051

Sources of Funds for the fiscal year

(in millions of U.S. dollars)

	1970	1971	1972	1973	1974
Reserved earnings from operations	50	64	72	85	92
Repayments of loans	460	538	666	747	841
Borrowings:					
From the Government	621	830	837	908	1,077
From the World Bank	-24	-25	-20	-18	-12
External loan bonds	6	-8	-7	-7	39
Others	-3	-19	-53	51	14
Total	1,110	1,380	1,495	1,766	2,051

Management & Organization Chart

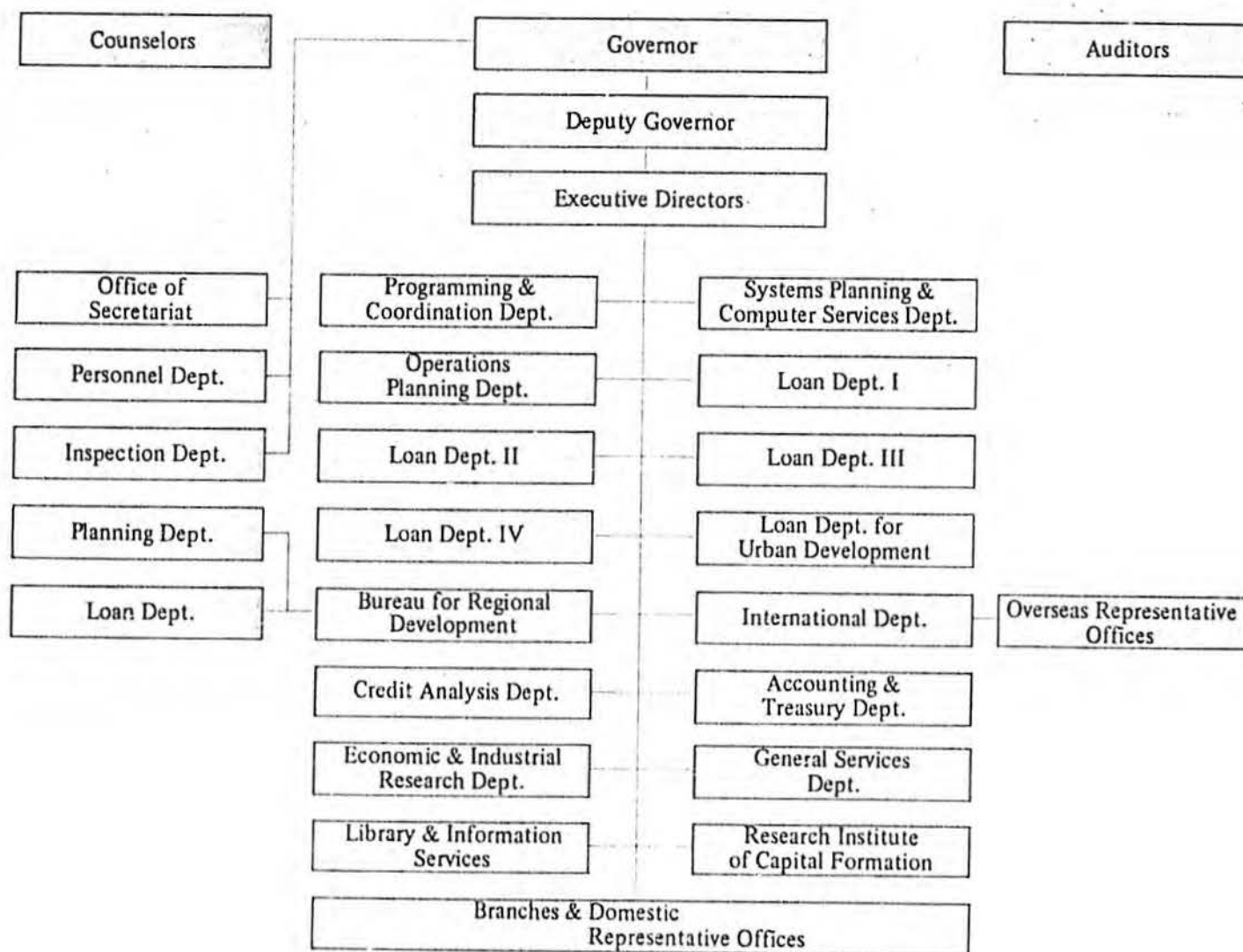
Governor
Deputy Governor
Executive Directors

Eiichi Yoshioka
 Takatomo Watanabe
 Jin Komiya
 Hideo Kamibayashi
 Kiyoto Iwata
 Kazuhiko Nomura
 Reitaro Yonemoto
 Toshio Maruyama
 Masatoshi Kitamura
 Kenichi Azuma
 Toshio Fujita
 Chuichi Takemura

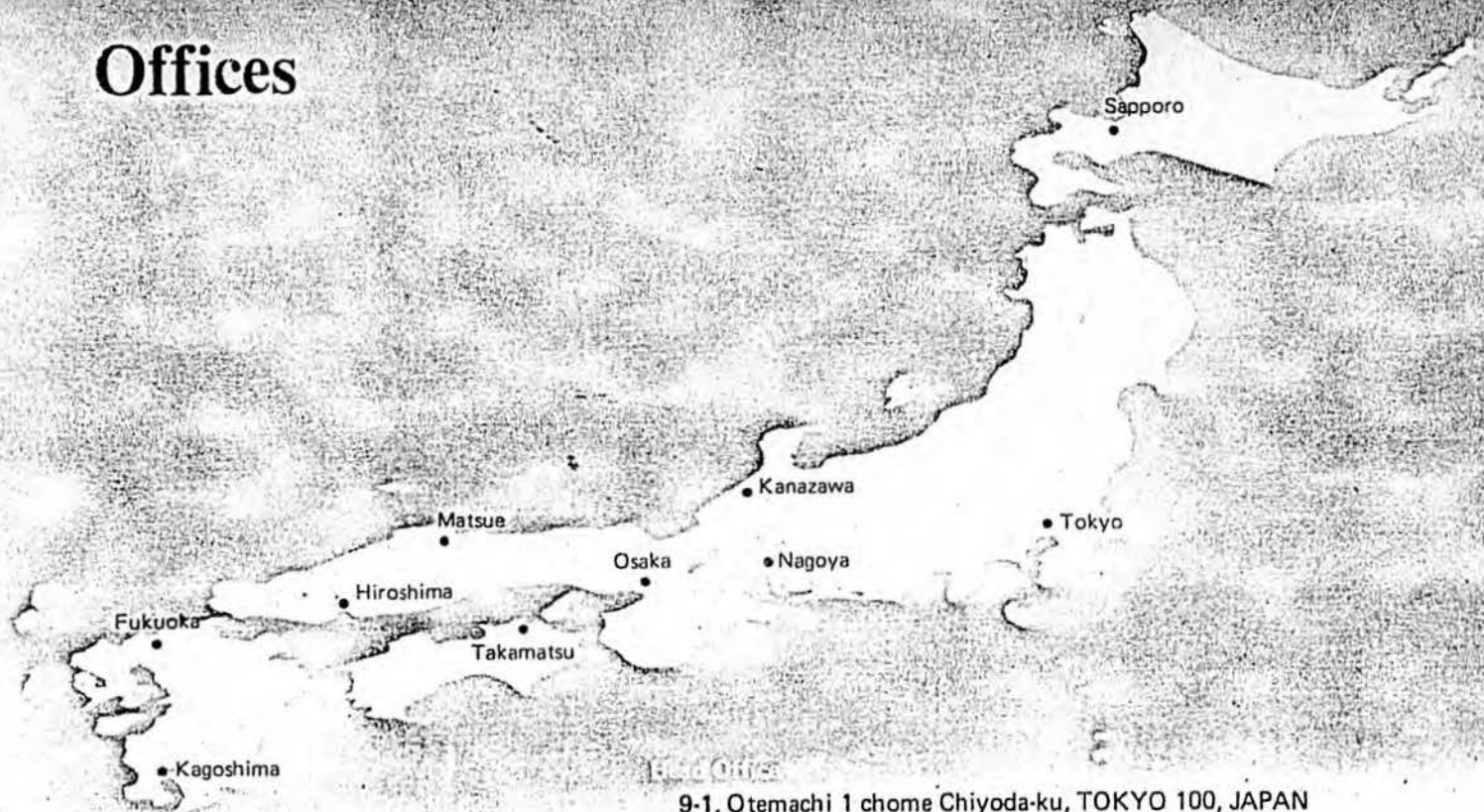
Counselors Shigeo Nagano Director and
 Honorary Chairman, Nippon
 Steel Corporation
 Kogoro Uemura Honorary
 President, The Federation of
 Economic Organizations
 Seiichi Tobata Advisor,
 Institute of Developing Economies
 Yoshiya Ariyoshi Chairman,
 Nippon Yusen Kaisha, Ltd.
 Saburo Okita President,
 The Overseas Economic
 Cooperation Fund
 Kiyoshi Nakatsukasa
 Chairman, Kanegafuchi Chemical
 Industry Co., Ltd.

Auditors

(as of May 31, 1975)



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Cable Address: JADEBANK LONDON-EC2

Telex: 888907

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AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: National Financiera S.A.

Location: Mexico City, Mexico. Offices in New York and Tokyo.

Size: 12/31/75

Assets: U. S. \$6.1 billion

Capital: U. S. \$555 million (including reserves and special funds)

Purpose: National Financiera S.A. ("Nafinsa") was established in 1934 and is the principal instrument of the Mexican Government for the financing of economic development in Mexico. By law, the Government must own 51% of Nafinsa's capital stock. At 12/31/75, the Government owned, directly and indirectly, 68% of such stock, with the balance owned by other Mexican institutions.

Nafinsa's broad purpose is to assist in the financing of development projects which (1) create employment; (2) improve personal income; (3) expand regional development; (4) centralize industry; (5) promote exports; (5) stimulate capital formation; (6) foster economic independence.

Source of Funds: Capital funds contributed by the Government, borrowings, retained earnings and cash flow from lending operations. Principal source is borrowings. By law, the Government can call up additional capital subscriptions from certain Mexican financial institutions. Nafinsa also administers 209 special purpose development trust funds for the account of the Government.

Management Structure: Managed by Board of Directors (Minister of Finance is Chairman). Director General is responsible for ongoing operations and policy. President of Mexico may veto resolutions of Board under certain circumstances. Total staff approximately 1,600.

Management of Funds: Internal.

Portfolio: Nafinsa may participate in the financing of development projects through direct loans, loan guarantees or equity investments, all of which may be extended to or made in or on behalf of both public and private sector entities. Principal activity is direct lending (U. S. \$4.9 billion outstanding) with public sector borrowers accounting for

Portfolio:
(cont'd.)

the majority of outstanding (U. S. \$2.8 billion) at year end. At same date, equity investments in private enterprises totalled U. S. \$500 million and guarantees U. S. \$1.5 billion, substantially all of which were extended on behalf of public enterprises borrowing abroad. General terms of Nafinsa's loans are more liberal than those available elsewhere in Mexico. Nafinsa frequently engages in debt restructuring agreements.

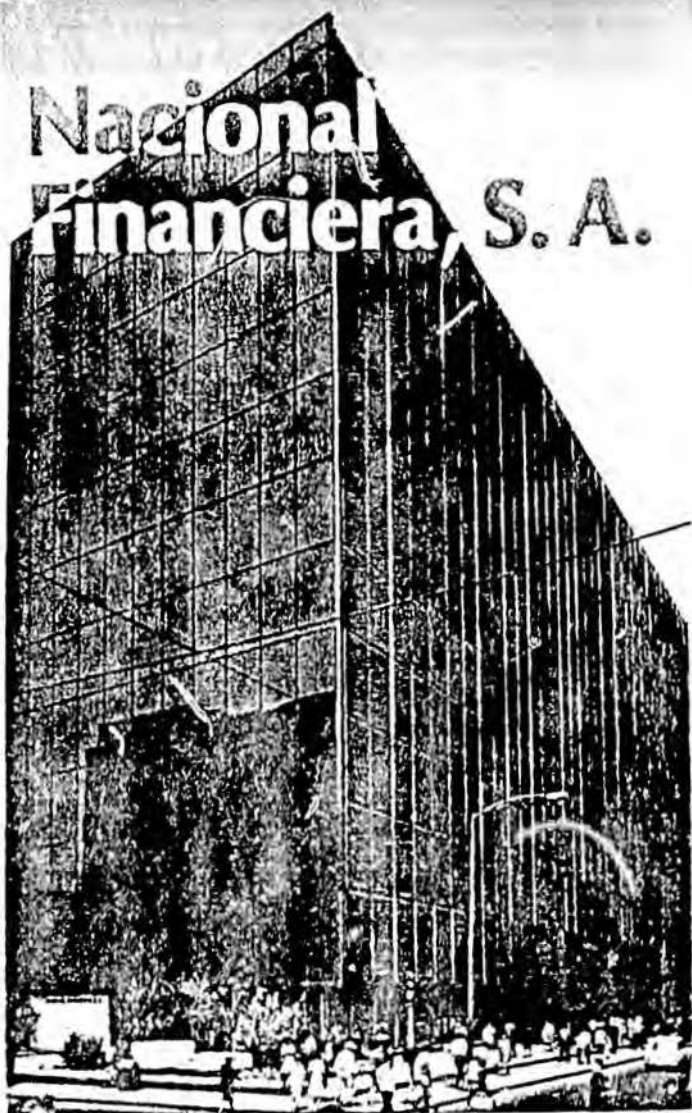
Capital Structure:

		12/31/75	
Debt	U. S.	\$5.2 billion	91.2%
Capital	U. S.	<u>.5 billion</u>	<u>8.8</u>
Total	U. S.	\$5.7 billion	100.0%

Income:

Net income allocated annually in accordance with following schedule: (1) 10% to legal reserve until reserve equals par value of subscribed stock; (2) preferred dividends; (3) common dividends; (4) 8% to employees; (5) balance to surplus. Amount of preferred dividends and common dividends equal to 8% of the par value of the respective securities.

Nacional Financiera, S. A.



Consolidated Statement of Condition March 31, 1976

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Nacional Financiera, S. A.

Consolidated Statement of Condition, March 31, 1976

ASSETS		LIABILITIES AND CAPITAL	
	Pesos		Pesos
Cash and deposits in Bank of Mexico	\$ 317 028 896.53	Bonds outstanding	\$ 9 172 178 391.00
Domestic and foreign bank balances	668 474 760.57	Obligations outstanding	557 307 000.00
Other liquid assets	467 889 201.74	Subtotal	9 729 485 391.00
Subtotal	1 453 392 858.84	Demand deposits	351 641 721.31
Government securities and interest-bearing deposits in Bank of Mexico	1 398 164 581.73	Other demand liabilities	2 719 518 533.39
Fixed-income securities	577 739 567.01	Subtotal	3 071 160 254.70
Stocks	6 286 925 756.13	Certificates of deposit	9 142 886 520.00
Subtotal	8 262 829 904.87	Bank loans	45 433 339 779.78
Less: Reserve	223 197 584.93	Other term liabilities	3 326 094 832.48
Subtotal	8 039 632 319.94	Subtotal	57 902 321 132.26
Discounts	945 472 741.43	Securities purchased under agreements to resell	7 556 200.00
Direct and secured loans	15 210 562 226.35	Other deposits and liabilities	308 590 060.16
Loans on current account	46 264 936 903.71	Reserve for sundry liabilities	1 068 979.08
Working capital loans	740 876 525.47	Deferred credits	817 239 376.49
Plant and equipment loans	1 336 612 860.00	Authorized capital	2 300 000 000.00
Subtotal	64 438 461 256.96	Less: Unpaid	247 502 800.00
Receivable on securities purchased under agreements to resell	2 251 000.00	Subtotal	2 052 497 200.00
Futures	11 771 408.64	Legal and other reserves	582 048 009.53
Sundry debtors — net	1 325 102 486.67	Surplus from revaluation of bank premises	12 421 957.35
Other investments — net	243 328 785.91	Profits for the current year (July 1, 1975 to date)	243 242 290.60
Furniture and equipment	74 617 328.89	Subtotal	2 890 209 457.49
Less: Reserve	44 346 134.04		
Bank premises	74 464 087.13		
Less: Reserve	4 057 085.23		
Deferred charges — net	334 626 537.46		
Total Assets	\$ 75 949 244 851.17	Total Liabilities and Capital	\$ 75 949 244 851.17

MEMORANDA ACCOUNTS

	Pesos
Endorsements	\$ 506 801 453.53
Guarantees	24 572 756 338.23
Irrevocable letters of credit	1 156 463 809.39
Other contingent liabilities	84 108 884.10
Assets in trust	18 325 322 298.31
Assets in custodianship or administration	59 161 731 627.68
Registry accounts	77 487 053 925.99
	162 045 209 631.49

(12.5 pesos = 1 U.S. Dollar)

This statement of condition was drawn up in compliance with the rules established by the National Banking and Insurance Commission, and balances in foreign currencies have been converted at the rates of exchange in effect on the closing date. The sum of 9 261 593 701.57 pesos of investments in securities and loans represents assets earmarked to guarantee bonds issued by the Institution. The statement has been approved by the General Director and the Vigilancia Officer.

NACIONAL FINANCIERA, S. A., Mexico's official development bank, was established by Act of Congress in 1934. It is the largest credit institution in Mexico after the Bank of Mexico (the central bank).

Business

Nacional Financiera serves as the Government's principal instrument for financing the economic infrastructure and promoting industries.

Numerous industrial firms, both public and private, which operate on a national scale receive financial assistance from Nacional Financiera, and many companies have been formed as a result of its promotional work. Some of these enterprises are joint ventures with participation of foreign share capital and technology.

Nacional Financiera is also vigorously promoting small business enterprises in localities throughout the country.

It administers development trust funds for programs placed in its charge by the Federal Government, such as the funds for small and medium-scale industry and for tourism.

Its operations include:

- extending medium and long-term loans.
- guaranteeing obligations contracted with other lenders, principally abroad.
- investing in securities, including share capital in business enterprises.
- acting as agent of the Federal Government in contracting long-term loans abroad.
- trading in securities over-the-counter.
- providing technical assistance for pre-investment studies.

Sources of funds

Nacional Financiera mobilizes resources from its capital and reserves, security issues placed on the domestic market, loans obtained from abroad, guarantee liabilities, and trust funds.

It has credit relations with the World Bank, the Inter-American Development Bank, Export Development Corporation of Canada, Export Credits Guarantee Department of England, Banque Nationale de Paris, Kreditanstalt für Wiederaufbau of Germany, Istituto Mobiliare Italiano in Rome, Export-Import Bank of Japan and Export-Import Bank of the United States, as well as with other banks and suppliers of equipment all over the world.

Its external bonds are traded on the stock exchanges in London, Luxembourg, Frankfurt, Hamburg, and Dusseldorf.

Economic development financing

Of the total financing outstanding granted by Nacional Financiera, 22% is invested in the economy's infrastructure: highways, communications, irrigation and other public investments.

Another 74% is invested in basic industries, principally iron and steel, petroleum, electricity, transportation, mining, and in manufacturing industries including textiles, food products, paper, chemicals, metal products and machinery and transport equipment.

Share capital

Nacional Financiera's authorized capital was raised to 2 300 million pesos at the Shareholders' Meeting on September 27, 1973. The Federal Government is the exclusive owner of Series A shares representing 51% of the total. Series B bearer shares are held by banking institutions and the general public and are listed on the domestic security exchanges.

Three of the seven members of the Board of Directors are appointed by the Federal Government. The Secretary of Finance is Chairman of the Board. Series B shares elect the remaining three members.

Nacional Financiera has made profits every year since its establishment. From 1961 to 1972 cash dividends of 9% have been paid each year on Series A and Series B shares. A dividend of 12% was declared for 1973, 1974 and 1975.

Officers¹

GENERAL DIRECTOR
GUSTAVO ROMERO KOLBECK

General Subdirector
DAVID IBARRA MUÑOZ

Associate Directors
AGUSTIN FOUQUE
JOSE TERRONES LANGONE

General Controller
JORGE FEDERICO MEADE

Regional Branches

ACAPULCO, GUERRERO
Costera Miguel Alemán No. 3055

CIUDAD JUAREZ, CHIHUAHUA
Centro Comercial PRONAF

CULIACAN, SINALOA
Alvaro Obregón No. 636, 2o. piso

GUADALAJARA, JALISCO
16 de Septiembre No. 446

JALAPA, VERACRUZ
Clavijero No. 19

LEON, GUANAJUATO
Blvd. López Mateos No. 813 Pte.

MERIDA, YUCATAN
Calle 60 No. 515, 2o. piso

MONTERREY, NUEVO LEON
Morelos No. 177 Pte., 3er. piso

MORELIA, MICHOACAN
Portal Matamoros No. 70

PUEBLA, PUEBLA
2 Oriente No. 6, 3er. piso

TAMPICO, TAMAULIPAS
Altamira No. 101 Ote.

TIJUANA, BAJA CALIFORNIA
Calle Segunda (Benito Juárez) No. 1334, 1er. piso

TOLUCA, ESTADO DE MEXICO
Morelos No. 100, 1er. piso

TORREON, COAHUILA
Calzada Colón No. 289 Norte

VILLAHERMOSA, TABASCO
Malecón Carlos A. Madrazo No. 1051, 1er. piso

MEXICO CITY BRANCH
Av. Universidad 1000
Centro Comercial Plaza Universidad

¹ As of May 3, 1976.

PROSPECTUS

U.S. \$30,000,000

Nacional Financiera, S. A.

(A national credit institution of Mexico)

10% Bonds Due 1st July, 1981

The offering price of the Bonds is 100 per cent. of the principal amount thereof, plus accrued interest (if any).

The Bonds are not redeemable prior to maturity, except as provided under "Description of the Bonds—Redemption and Purchase of Bonds" herein.

Principal of and premium, if any, and interest on the Bonds will be paid without deduction for or on account of Mexican taxes to the extent set forth under "Description of the Bonds—Taxation in Mexico." Interest from 1st July, 1976 is payable annually in arrears beginning on 1st July, 1977 in New York City, London, Brussels, Frankfurt/Main, Luxembourg, Paris and Zurich.

Application has been made to the Council of The Stock Exchange of the United Kingdom and the Republic of Ireland ("The Stock Exchange") for the Bonds to be admitted to the Official List.

The Bonds have not been registered under the Securities Act of 1933 of the United States of America and may not be offered, sold or delivered directly or indirectly in the United States of America (including its possessions and territories and areas subject to its jurisdiction), or to nationals or residents thereof, as described under "Subscription, Underwriting and Sale."

It is expected that delivery of the Bonds will be made in London at the offices of Credit Suisse White Weld Limited, 148 Leadenhall Street, London EC3V 4PD, on or about 8th July, 1976.

Credit Suisse White Weld Limited

Crédit Commercial de France

Dresdner Bank Aktiengesellschaft

Hambros Bank Limited

Kredietbank S.A. Luxembourgeoise

Orion Bank Limited

Société Générale

**Swiss Bank Corporation (Overseas)
Limited**

Banco Internacional, S.A.

The date of this Prospectus is 16th June, 1976.

This Prospectus contains information given in compliance with the Regulations of The Stock Exchange for the purpose of giving information to the public with regard to Nacional Financiera, S.A. ("Nafinsa") and the Bonds. The Director General of Nafinsa accepts full responsibility for the accuracy of the information given in this Prospectus and confirms, having made all reasonable enquiries, that to the best of his knowledge and belief there are no other facts the omission of which would make any statement in this Prospectus misleading.

No person has been authorised to give any information or make any representation in connection with the offering of the Bonds other than that contained in this Prospectus and, if given or made, any such information or representation should not be relied upon as having been authorised by Nafinsa or any of the Managers (as defined on page 76). Neither the delivery of this Prospectus, nor any sale made hereunder, shall in any circumstances create any implication that there has been no change in the affairs of Nafinsa since the date thereof. This Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

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The Managers may effect transactions in the open market or otherwise in connection with the distribution of the Bonds with a view to stabilising or maintaining the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

References herein to "P" and "pesos" are to Mexican pesos and references to "\$" and "dollars" are to United States dollars. In April 1954 the par value of the peso was established under the Articles of Agreement of the International Monetary Fund at P12.50 per \$1.00 and, unless otherwise indicated, all conversions herein are made at such rate. On 14th June, 1976, the reported selling price for bank transfers for the peso in New York City was \$.0801.

DESCRIPTION OF THE BONDS

The Bonds will be direct unsecured obligations of Nafinsa. The Managers have been advised by Messrs. Goodrich, Dalton, Little & Riquelme, special Mexican counsel to the Managers, that under Nafinsa's Organic Law Mexico will be responsible for payment of principal of, and premium, if any, and interest on, the Bonds.

The Bonds will be issued under a Fiscal Agency Agreement to be dated as of 1st July, 1976 (the "Fiscal Agency Agreement") between Nafinsa and European-American Bank & Trust Company (the "Fiscal Agent"). Certain statements under this caption are summaries of, and are subject to, detailed provisions of the Fiscal Agency Agreement, copies of which may be inspected at the offices of the Fiscal Agent and the Paying Agencies referred to below.

The principal amount of the Bonds to be issued under the Fiscal Agency Agreement will be limited to \$30,000,000. The Fiscal Agency Agreement will not limit other indebtedness or securities which may be issued by Nafinsa.

Denomination and Transfer

The Bonds will be issued in bearer form in denominations of \$1,000 and title thereto will pass by delivery.

Negative Pledge

At their issuance, the Bonds will rank *pari passu* with all other external indebtedness of Nafinsa for borrowed money and with all guarantees by Nafinsa of external indebtedness of others for borrowed money. Nafinsa will be obligated to secure the Bonds equally and ratably if in the future it secures any present or future external indebtedness of Nafinsa for borrowed money or any present or future guarantee by Nafinsa of external indebtedness of others for borrowed money. The term "external indebtedness" will be defined in the Fiscal Agency Agreement to mean indebtedness for money borrowed outside Mexico from a person who, as to Mexico, is a non-resident individual, fiduciary, corporation or unincorporated association and indebtedness for money borrowed outside Mexico evidenced by instruments originally issued to any such person.

Payment of Principal and Interest

The Bonds will be dated 1st July, 1976, will mature on 1st July, 1981 and will bear interest from 1st July, 1976, payable annually on 1st July, commencing 1st July, 1977, at the rate set forth on the cover page hereof. The Bonds and coupons may be presented for payment in U.S. dollars (a) at the corporate trust office of the Fiscal Agent in New York City; or (b) subject to applicable laws and regulations, at the main offices of Midland Bank Limited, London; Société Générale de Banque S.A., Brussels; Deutsche Bank Aktiengesellschaft, Frankfurt/Main; Banque Générale du Luxembourg S.A., Luxembourg; Société Générale, Paris and Crédit Suisse, Zurich. Payment at the offices referred to in (b) above will be made by U.S. dollar cheque drawn on a bank in New York City or by a transfer to a U.S. dollar account maintained by the holder with a bank in New York City or in such other place as the holder may specify from time to time and as shall be acceptable to the Fiscal Agent and the affected Paying Agent. Nafinsa may vary or terminate the appointment of such paying agencies from time to time but will at all times maintain a paying agency in New York City.

Taxation in Mexico

Nafinsa will agree to pay principal of, and premium, if any, and interest on, the Bonds without deduction for, or on account of, any present or future tax, assessment or other governmental charge required by Mexico or any political subdivision thereof to be withheld with respect to such payments unless Nafinsa is required by law to deduct or withhold such taxes, assessments or charges, in which event Nafinsa will pay such additional amounts of, or in respect of, principal of, and premium, if any, and interest on, the Bonds as will result (after

deduction of said taxes, assessments or charges) in the payment to the holders of the Bonds and coupons of the amounts which would otherwise have been payable in respect thereof. Reference herein to principal of, and premium, if any, and interest on, the Bonds shall be deemed to include any additional amounts which would be payable pursuant to the preceding sentence.

The Managers have been advised by Messrs. Goodrich, Dalton, Little & Riquelme that, inasmuch as the Bonds will be issued and delivered outside of Mexico, no holder would, under the Mexican income tax law presently in effect, be subject to Mexican income tax on gains realized on the sale of the Bonds if (i) such holder is, as to Mexico, a nonresident alien individual, fiduciary, corporation or unincorporated association, and further (ii) no element of the sale occurs or becomes effective within the territorial jurisdiction of Mexico.

Redemption and Purchase of Bonds

The Bonds may not be redeemed by Nafinsa prior to their stated maturity except as provided in this paragraph. If in order to comply with the requirements of the first paragraph under "Taxation in Mexico" Nafinsa shall at any time be required to pay any amounts in excess of the amounts which Nafinsa would be required by reason of laws in effect on 1st July, 1976 to pay in order to comply with the requirements of such paragraph, Nafinsa may at its option redeem all (but not less than all) Bonds then outstanding at the following redemption prices (which are expressed as percentages of principal amount), in each case together with accrued interest to the date fixed for redemption, as provided in the Fiscal Agency Agreement:

If Redeemed During 12-Month Period Beginning 1st July,	Redemption Price
1976	101%
1977	100 $\frac{3}{4}$ %
1978	100 $\frac{1}{2}$ %
1979	100 $\frac{1}{4}$ %
1980	100%

Notice of redemption shall be given at least 30 days and not more than 60 days before the date fixed for redemption by publication in the manner provided under "Notices". Bonds must be presented for redemption in the manner specified in such notice, with all unmatured interest coupons appertaining thereto attached. The amount of any such coupons missing from a redeemed Bond will be deducted from the principal amount due for payment. Amounts so deducted will be paid upon due presentation of the coupons. The Fiscal Agent shall cancel all Bonds and coupons so redeemed.

Nafinsa may at any time purchase Bonds in the open market at any price or by private agreement at a price not exceeding 110% of the principal amount thereof (exclusive of accrued interest and expenses), in which case it shall forthwith surrender them (with all unmatured coupons attached) to the Fiscal Agent for cancellation. Pending the surrender of the Bonds to the Fiscal Agent for cancellation, Nafinsa shall not be entitled to sell or otherwise dispose of the same.

Replacement of Bonds and Coupons

If a Bond or coupon is mutilated, defaced, lost, stolen or destroyed it will be replaced at the office of the Fiscal Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as Nafinsa and the Fiscal Agent may require in their respective sole discretion. Mutilated or defaced Bonds or coupons must be surrendered before replacements will be issued.

Events of Default

Each Bond will provide that in case one or more of the following events ("Events of Default") shall have occurred and be continuing, that is to say:

(a) default in the payment when due of the principal of, or premium, if any, or interest on, such Bond, and the continuance of any such default for a period of 30 days; or

(b) default in the performance or observance of any other covenant or agreement contained in such Bond, and the continuance of any such default for a period of 90 days after written notice specifying such default has been given to the Fiscal Agent by the holder of such Bond; or

(c) if an event of default, as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any external indebtedness for money borrowed of Nafinsa, which indebtedness was originally evidenced by instruments issued in a public offering, whether such indebtedness now exists or shall hereafter be created, shall happen and shall result in any such indebtedness becoming or being duly declared due and payable prior to the date on which it would otherwise become due and payable, or any such indebtedness shall not be paid when the same shall be due and payable (whether at scheduled maturity, by redemption or acceleration or otherwise), and such nonpayment shall continue beyond any applicable periods of grace; or

(d) Nafinsa shall be adjudicated a bankrupt or insolvent, or admit in writing its inability to pay its debts as they mature, or make an assignment for the benefit of its creditors; or Nafinsa shall institute any proceedings for bankruptcy, reorganization (suspension de pagos), dissolution or liquidation or similar proceedings relating to it under the laws of any jurisdiction, or any such proceeding shall be instituted against Nafinsa and shall remain undismissed for a period of 30 days; or any judgment or execution or similar process shall be issued or levied against a substantial part of the property of Nafinsa and such judgment or similar process shall not be released within 60 days after its issue or levy; or

(e) the Federal Government of Mexico shall own less than 51% of the social capital of Nafinsa; or any governmental authority having jurisdiction shall have taken or instituted any action or proceeding for the dissolution or disestablishment of Nafinsa or for the suspension of its operations; or

(f) the ownership, possession or control of all or substantially all of the assets, or of any property necessary for the operation of Nafinsa, shall have been relinquished voluntarily or involuntarily by Nafinsa;

then in each and every case (i) any amount so in default in respect of such Bond shall bear interest (if, and to the extent, permitted by law) at the rate specified on the cover hereof until such default shall have been cured, and (ii) the principal amount of such Bond shall, at the option of, and upon written demand to the Fiscal Agent by, the then owner thereof, mature and become due and payable upon the date that such written demand is received by the Fiscal Agent unless prior to such date Nafinsa shall have cured all such Events of Default. Nafinsa will be required to give notice of the occurrence and continuance of each Event of Default by publication in the manner provided under "Notices".

Notices

All notices regarding the Bonds will be valid if published in one leading daily newspaper in London or, if this is not possible, in one leading English language daily newspaper with circulation in Europe. It is expected, however, that publication of notices will normally be made in both the Financial Times and the International Herald Tribune.

Prescription and Limitation of Actions

Bonds and coupons shall become void unless presented for payment within five and three years, respectively, from the due date for payment (whether at scheduled maturity, by redemption or acceleration or otherwise).

The Managers have been advised by Messrs. Goodrich, Dalton, Little & Riquelme that under Mexican law no action, suit or other legal proceeding to enforce payment of a Bond or coupon, or to enforce any judgment obtained in respect of any such payment in any other jurisdiction, may be commenced in Mexico after the expiration of five years, in the case of a Bond, or three years, in the case of a coupon, from the due date for payment unless a demand has been made on, or litigation has been instituted against, Nafinsa through or in a court in Mexico within the relevant period.

Consent to Service

Nafinsa will appoint the Fiscal Agent as its authorised agent upon which process may be served by any holder of a Bond or coupon in actions arising out of or relating to the Bonds or coupons thereto appertaining or the Fiscal Agency Agreement which may be instituted in any State or Federal court in the City and State of New York, and Nafinsa will irrevocably waive any immunity from jurisdiction and from execution of judgment (including the defense of sovereign immunity) to which it might otherwise be entitled in any such action. Also the Fiscal Agency Agreement provides that any action arising out of or relating to the Bonds, any coupons appertaining thereto or the Fiscal Agency Agreement may be instituted by the holder of any Bond or such coupon in any competent court in Mexico. It may not be possible to enforce in a Mexican court a judgment of an American court with respect to the Bonds if such enforcement would violate Mexican public policy.

Governing Law

The Fiscal Agency Agreement and the Bonds will provide that such documents and the coupons appertaining to the Bonds shall be governed by, and interpreted in accordance with, the laws of the State of New York.

USE OF PROCEEDS

The net proceeds to Nafinsa from the sale of the Bonds (estimated to amount to \$29,400,000) will be converted into pesos and will be used by Nafinsa for its general purposes as described under "Business" herein.

NACIONAL FINANCIERA, S.A.

Introduction

Nacional Financiera, S.A., a national credit institution organized in 1934, is the principal instrument of the Federal Government (the "Government") of the United Mexican States ("Mexico") for financing the economic development of Mexico. Nafinsa's legislative charter provides that the Government must at all times own at least 51% of its capital stock. At June 30, 1975, the Government owned directly approximately 64% of the capital stock of Nafinsa and, through agencies of the Government and other Government institutions, owned indirectly an additional 4%. Four of the seven members of Nafinsa's Board of Directors are designated by the Government, including the Chairman of the Board, who is the Minister of Finance and Public Credit. It operates under the supervision of the Ministry of Finance and Public Credit and, as a credit institution, it is subject to regulation by the National Banking and Insurance Commission.

As a national development bank, Nafinsa's credit and investment policies reflect the broad economic and social aims of the Government, including the creation of employment, improvement of personal income, expansion of regional economic development and industrial decentralization, promotion of exports, strengthening of productive enterprises, stimulation of savings and fostering of national economic independence. Its financing activities are designed to complement other public and private sources of capital and to provide funds for economic development on terms and conditions generally more favorable than those available to Mexican entities in the Mexican and international capital markets. Accordingly, it provides loans to Mexican entities of longer maturities than are normally available to them elsewhere in the capital markets and often finances projects that are of a longer term developmental nature and involve a higher degree of risk than would usually be undertaken by private financial institutions.

Nafinsa's principal form of financing activity is the extension of loans and loan guarantees. Substantially all of Nafinsa's loans are to or guaranteed by the Government, and, in most cases, the Government has agreed to indemnify Nafinsa with respect to its loan guarantees. Nafinsa also makes equity investments to further industrial expansion. At June 30, 1975, equity investments were held in 94 corporations and included majority equity interests in Mexico's largest steel and fertilizer companies.

Nafinsa also administers trusts created primarily by the Government to promote the development of certain sectors of the Mexican economy, such as small and medium-size businesses, regional industrial development and tourism. Under a recent revision of its legislative charter, Nafinsa also has the power to accept demand deposits and act as a mortgage bank but has not done so to date.

CAPITALIZATION

The capitalization of Nafinsa at December 31, 1975, as adjusted to give effect to the issuance of the Bonds offered hereby, is shown below:

	Millions of pesos	Millions of dollars
FINANCIAL DEBENTURES AND CERTIFICATES:		
8.5-12.9% debt certificates	P 1,105	\$ 88
9.5-14.2% debt certificates	7,111	569
3% financial debentures	357	29
9-11% financial debentures	6,580	526
12.7-15.1% financial debentures	1,933	155
7.3% financial obligations	401	32
Total debentures and certificates	17,487(2)	1,399(2)
EXTERNAL BORROWINGS(3) (4):		
Mexican peso borrowings	2,011	161
Foreign currency borrowings:		
Specific project borrowings(5):		
International Bank for Reconstruction and Development (World Bank)	6,277	502
Inter-American Development Bank	6,479	518
Export-Import Bank of the United States	1,739	139
Other	14,739	1,179
Total specific project borrowings	29,234	2,338
General borrowings:		
Outstanding	15,588	1,248
10% Bonds Due 1st July, 1981	375	30
Total general borrowings	15,963	1,278
Total external borrowings	45,197	3,616
Total indebtedness	47,208	3,777
Total capitalization	64,695	5,176
STOCKHOLDERS' EQUITY:		
Capital stock, 100 peso par value per share:		
Series A common: authorized, issued and outstanding 11,730,000 shares ...	1,173	94
Series B 8% cumulative preferred: authorized 11,270,000 shares; issued and outstanding 8,794,972 shares	880	70
Statutory reserve	550	44
Other reserves	33	3
Undivided profits	164	13
Total stockholders' equity	2,800	224
Total capitalization	67,495	5,400
FONDOS COMUNES(6):		
5-8% equity participation certificates redeemable on demand	4,135	331
Total capitalization including Fondos Comunes	71,630	5,731

NOTES:

- (1) Translation into pesos of amounts borrowed in foreign currencies has been made at the prevailing rate on December 31, 1975.
- (2) Of this amount, P 8,504 million (\$680 million) mature within one year. Nafinsa expects to refinance this amount through the issuance of similar obligations. In addition to the above amount, approximately P 5,987 million (\$479 million) are payable by Nafinsa on demand by the holder. Substantially all of the financial debentures and certificates are payable in pesos; P 1,207 million (\$96 million) are payable in dollars.
As of December 31, 1975 Nafinsa had pledged assets totaling P 9,061 million (\$725 million) as collateral under provisions of certain of the Financial Debentures and Certificates.
- (3) Nafinsa's Organic Law provides that Mexico will be responsible at all times for Nafinsa's obligations under loans made to Nafinsa by foreign private, governmental or inter-governmental institutions.
- (4) See "Business—Sources of Funds" for schedule of amortization of external borrowings.
- (5) Specific project borrowings represent foreign currencies borrowed by Nafinsa which are reloaned in the same currencies to the public sector. Any profit or loss resulting from changes in the exchange rates of foreign currencies in such transactions are for the accounts of the entities to whom the funds are reloaned.
- (6) The equity participation certificates are collateralized by assets transferred to a special trust fund established by Nafinsa, bear interest at 5-8% per annum, are redeemable (together with accrued interest) on demand of the holder and constitute an unconditional obligation of Nafinsa. See Notes 1 and 14 of the Notes to Financial Statements.

STATEMENT OF INCOME

The following statement of income of Nafinsa for the five years and six months ended December 31, 1975, is a summary of more detailed statements that have been prepared in accordance with rules issued by the Comision Nacional Bancaria y de Seguros (National Banking and Insurance Commission) of Mexico. As Nafinsa is a national credit institution of the Government organized for financing the development of the economic infrastructure and promoting basic industries and other manufacturing enterprises in Mexico, meaningful comparisons of its results of operations cannot be made with those of a private financial institution organized for profit. The statement of income for the five years ended June 30, 1975 (expressed in pesos), set forth below has been examined by Mancera Hermanos y Cia., S. C., independent auditors, whose report thereon is included elsewhere in this Prospectus. The statement should be read in conjunction with the other financial statements and related Notes to Financial Statements included elsewhere herein.

	Year ended June 30,					1975 (millions of dollars)	Six months ended December 31, 1975 (Unaudited)	
	1971	1972	1973	1974	1975		(millions of pesos)	(millions of dollars)
Revenues:								
Interest	P 2,374	P 2,626	P 3,061	P 3,575	P 4,446	\$356	P 2,600	\$208
Dividends (c)	179	149	201	299	498	40	153	12
Commissions (d)	109	108	115	114	203	16	209	17
Other	7	28	89	203	118	9	12	1
Total revenues	<u>2,669</u>	<u>2,911</u>	<u>3,466</u>	<u>4,191</u>	<u>5,265</u>	<u>421</u>	<u>2,974</u>	<u>238</u>
Expenses:								
Interest	2,289	2,441	2,766	3,437	4,347	348	2,463	197
Administrative	162	198	254	422	497	40	300	24
Other	45	79	147	65	122	9	22	2
Total expenses	<u>2,496</u>	<u>2,718</u>	<u>3,167</u>	<u>3,924</u>	<u>4,966</u>	<u>397</u>	<u>2,785</u>	<u>223</u>
Income before income tax and profit sharing to employees .	173	193	299	267	299	24	189	15
Less:								
Corporate income tax (e) .	6	23	48	—	—	—	25	2
Profit sharing to employees (f)	7	7	12	15	30	2	0	0
Net income	<u>P 160</u>	<u>P 163</u>	<u>P 239</u>	<u>P 252</u>	<u>P 269</u>	<u>\$ 22</u>	<u>P 164</u>	<u>\$ 13</u>

a. Reference is made to Note 1 of the Notes to Financial Statements for a description of the accounting principles and practices followed by Nafinsa. As described in Note 2 of the Notes to Financial Statements, there are certain differences between the accounting principles and practices applicable to banks in Mexico and those generally accepted in the United States of America. These differences primarily relate to the accounting by Nafinsa for loan losses and for stock dividends.

b. Revenues and expenses include revenues and expenses for the Fondos Comunes. The amounts for the Fondos Comunes, however, are not material in relation to the revenues and expenses for Nafinsa. See Notes 1 and 14 of the Notes to Financial Statements.

c. Dividend revenues include values assigned stock dividends in the amounts of P 21 million, P 16 million, P 49 million, P 88 million and P 175 million (\$14 million), respectively, for the five years ended June 30, 1975 and P 132 million (\$10.5 million) for the six months ended December 31, 1975. The stock dividends are generally intended to represent distributions based

upon current or prior period earnings of investee companies in lieu of cash dividends. A 1973 stock dividend from Altos Hornos de Mexico, S. A. with an assigned value of P 272 million (\$21.7 million) was credited to deferred income because of certain limitations on the receipt of cash dividends for a period of four years on the shares received. The deferred income has been amortized and included in dividend revenues in the amounts of P 27 million, P 54 million, P 95.5 million (\$7.6 million), and P 63.7 million (\$5 million), respectively, in the three years ended June 30, 1973, 1974 and 1975 and the six months ended December 31, 1975. The unamortized deferred stock dividends of P 95.5 million (\$7.6 million) and P 31.8 million (\$2.5 million) are classified as unearned income in the June 30, 1975 and December 31, 1975 balance sheets, respectively. See Notes 1 and 2 of the Notes to Financial Statements.

d. Commissions represent revenues earned from providing trust services and from guaranteeing loans.

e. Nafinsa's income before taxes and profit sharing to employees is subject to the Mexican statutory corporate tax rate of 42%; however, dividend income is not taxable.

f. Under the Mexican labor law, employees share in the profits of their employers. The amount of profit sharing is not deductible for income tax purposes. During 1975, the rate of profit sharing was increased for all companies in Mexico by a Government commission. Profit sharing accruals are made at the end of the fiscal year and accordingly are not shown for the six months ended December 31, 1975.

g. Dollar amounts have been included solely for convenience and are stated, as a matter of arithmetic translation only, at the rate of 12.50 pesos per \$1.00.

BUSINESS

Loan Operations

Nafinsa provides short, medium and long-term loans to the Government, agencies of the Government and industry. Historically, the majority of its lending activity has been directed towards the development of the economic infrastructure and basic industries of Mexico. In recent years, with the achievement of more advanced development in these sectors, Nafinsa has increased the percentage of its loans to manufacturing industries.

Nafinsa lends to both the public and private sectors, although most of its lending activity has traditionally been oriented to the public sector. At June 30, 1975, substantially all of the principal amount of outstanding loans were to the public sector. (As used in this Prospectus, the term "public sector" means the Government, agencies or subdivisions of the Government and corporations controlled, directly or indirectly, by the Government.)

The following table sets forth the loans by Nafinsa outstanding at the end of each of the five years ended June 30, 1975, as distributed among various sectors of the Mexican economy.

TOTAL LOANS OUTSTANDING BY SECTORS OF THE ECONOMY (1)

	1971	1972	1973	1974	1975	1975 as % of total
	(millions of dollars)					
Infrastructure Projects:						
Communications	\$ 19.2	\$ 26.6	\$ 41.6	\$ 41.3	\$ 41.6	1.0%
Roads, highways and bridges	112.0	141.4	193.4	209.1	233.0	5.7
Irrigation	184.7	224.0	271.4	293.6	342.2	8.4
Agriculture	138.2	175.2	244.2	274.3	442.8	10.9
Housing	29.2	29.1	28.9	28.7	34.3	0.8
Other public works	403.0	127.0	164.6	139.1	160.5	4.0
Total Infrastructure Projects	886.3	723.3	944.1	986.1	1,254.4	30.8
Basic Industries:						
Petroleum	104.6	206.0	240.6	195.4	186.0	4.6
Electric power	616.4	745.5	877.4	846.2	790.9	19.4
Iron and steel	67.3	106.4	78.0	132.9	314.5	7.7
Transport	340.0	370.0	402.9	460.7	559.8	13.8
Cement and other construction materials	1.6	0.7	1.4	2.1	2.1	0.1
Nonferrous metals	9.2	10.0	10.0	10.0	10.0	0.2
Mining	7.0	12.4	22.4	34.4	48.0	1.2
Total Basic Industries	1,146.1	1,451.0	1,632.7	1,681.7	1,911.3	47.0
Manufacturing Industries:						
Food	37.7	31.9	51.7	70.9	91.1	2.2
Clothing	42.3	48.9	58.2	86.3	101.7	2.5
Wood and cork	2.9	4.2	4.7	5.1	11.7	0.3
Paper, cellulose and paper products	50.0	53.7	54.2	52.9	61.0	1.5
Chemicals	35.0	32.5	45.3	32.3	35.2	0.9
Metal products and machinery	2.6	3.5	2.2	3.9	2.9	0.1
Transport equipment	90.3	108.2	125.1	166.6	370.4	9.1
Other	17.3	19.7	16.2	24.5	30.2	0.7
Total Manufacturing Industries	278.1	302.6	357.6	442.5	704.2	17.3
Other Activities	84.0	89.2	99.4	166.2	197.3	4.9
Total Loans	\$2,394.5	\$2,566.1	\$3,033.8	\$3,276.5	\$4,067.2(1)	100.0%

(1) Table includes loans assigned to Fondos Comunes and overdue loans and excludes accrued interest, loans to a trust fund and loans to employees which at June 30, 1975 aggregated \$213.0 million, \$11.3 million, \$124.3 million, \$24.0 million and \$4.2 million, respectively. See Notes 4 and 5 of the Notes to Financial Statements.

Most of Nafinsa's loan transactions involve commitments to provide funds at a later date or dates. The interest rate is fixed at the time the commitment is made, and a commitment fee is charged, varying from .25% to 2% per annum depending on the borrower and the size of the loan. At June 30, 1975, Nafinsa had undisbursed loan commitments aggregating P 15,947 million (\$1,276 million). Nafinsa has obtained funds or credit commitments, primarily from foreign credit institutions, to cover most of such undisbursed commitments.

The following table sets forth the sectors of the Mexican economy to which Nafinsa disbursed loans during the year ended June 30, 1975, and the percentage of Nafinsa's loans disbursed to such sectors during such year.

LOANS DISBURSED

	Year ended June 30, 1975	Percent- age
	(millions of dollars)	
Infrastructure Projects:		
Communications	\$ 6.9	0.4%
Roads, highways and bridges	41.5	2.5
Irrigation	72.2	4.4
Agriculture	265.9	16.2
Housing	7.4	0.5
Other public works	58.2	3.5
Total Infrastructure Projects	452.1	27.5
Basic Industries:		
Petroleum	19.6	1.2
Electric power	55.4	3.4
Iron and steel	251.6	15.3
Transport	175.4	10.7
Cement and other construction materials	1.1	—
Nonferrous metals	—	—
Mining	45.2	2.8
Total Basic Industries	548.3	33.4
Manufacturing Industries:		
Food	53.4	3.3
Clothing	44.6	2.7
Wood and cork	13.7	0.8
Paper, cellulose and paper products	15.2	0.9
Chemicals	7.5	0.5
Metal products and machinery	0.6	—
Transport equipment	252.9	15.4
Others	51.2	3.1
Total Manufacturing Industries	439.1	26.7
Other Activities	203.5	12.4
Total Loans	\$1,643.0	100.0%

The following table sets forth, at June 30, 1975, information relating to the ten largest borrowers from Nafinsa. Each of such borrowers is a part of the public sector. Total loans outstanding to such borrowers, at June 30, 1975, represented 69.5% of Nafinsa's total loans outstanding at that date.

PRINCIPAL BORROWERS

<u>Organization</u>	<u>Principal Activity</u>	<u>Loan Outstanding</u> (millions of dollars)
Comision Federal de Electricidad	Generation and transmission of electric power	\$ 791
Secretaria de Recursos Hidráulicos	Ministry of Water Resources— administration of irrigation programs	342
Fondo de Garantía y Fomento para la Agricultura, Ganadería y Avicultura	Rediscount of notes payable to banks to support development of agricultural activity	341
Secretaria de Obras Publicas	Ministry of Public Works— administration of road, highway and bridge construction programs	229
Sistema de Transporte Colectivo	Construction and operation of the subway system in Mexico City	218
Siderurgica Lazaro Cardenas-Las Truchas, S. A.	New iron and steel production facility	205
Ferrocarriles Nacionales de Mexico	National railroad system	201
Constructora Nacional de Carros de Ferrocarriil, S.A.	Manufacture of railroad cars	195
Petroleos Mexicanos	Production and distribution of petroleum and petroleum products	186
Diesel Nacional, S. A.	Manufacture of automotive vehicles	122
	TOTAL	\$2,830

The following table sets forth information relating to the size of Nafinsa's loans outstanding at June 30, 1975. As indicated in the table, the number of loans amounting to \$8 million or more totals 124 and represents 73.6% of the principal amount of total loans outstanding at June 30, 1975.

DISTRIBUTION OF LOANS BY SIZE

	<u>Number of Loans</u>	<u>Amount Outstanding</u> (millions of dollars)	<u>% of Total Loans Out- standing</u>
Less than \$2 million	Numerous	\$ 316.2	7.6%
\$2 million to \$8 million	194	775.2	18.8
\$8 million to \$24 million	87	1,271.2	30.8
\$24 million to \$40 million	25	825.2	20.0
\$40 million and more	12	943.4	22.8
		\$4,131.2(1)	100.0%

(1) Table includes loans assigned to Fondos Comunes (\$213.0 million), collateral guarantees on discounts (\$34.0 million) and miscellaneous receivables (\$13.0 million), and excludes accrued interest (\$124.3 million). See Notes 4, 5, 6 and 10 of the Notes to Financial Statements.

The following table sets forth information concerning the scheduled amortization of these loans excluding those of less than \$2 million in size.

AMORTIZATION		Millions of dollars
Remaining Term		
Less than 1 year		\$ 637
From 1 to less than 6 years		966
From 6 to less than 11 years		630
From 11 to less than 15 years		1,072
15 years or more		510
		<u>\$3,815</u>

When a borrower has difficulty meeting the terms of a loan, Nafinsa, as a national development bank, generally renews or restructures the loan. In addition, the Government in certain cases assumes direct responsibility for the payment of problem loans and reimburses Nafinsa for all monies owed to it under such loans. During the year ended June 30, 1975, loans totaling approximately P 833 million (\$67 million) were restructured or renewed. In cases where such problem loans are not restructured, renewed or assumed by the Government, Nafinsa segregates them as "non-accrual" loans and an appropriate allowance for loss is provided in accordance with the regulations of the Mexican National Banking and Insurance Commission. The allowance for losses is based on evaluations of individual loans and is the total of amounts provided for specific doubtful receivables. A general reserve is not provided for potential losses on current loans. See Note 7 of the Notes to Financial Statements for an analysis of the allowance for loan losses during the past five years.

Loan Guarantee Operations

An important part of Nafinsa's business consists of guaranteeing the prompt payment of loans incurred by others to advance the economic development of Mexico. Substantially all of such loans guaranteed by Nafinsa were payable to external lenders in foreign currencies, principally dollars. At June 30, 1975, loans totaling P 19,644.4 million (\$1,571.6 million) had been guaranteed by Nafinsa, of which 2.9% were to economic infrastructure projects, 88% were loans to basic industries and 8.9% were loans to manufacturing industries. At that date, approximately 87% of the principal amount of loans outstanding that were guaranteed by Nafinsa were obligations of the public sector. The Government has agreed to indemnify Nafinsa against any losses arising from most of the loans guaranteed by Nafinsa. Nafinsa charges a fee of 0.125% to 1.5% per annum on the outstanding principal amount of loans to the public sector guaranteed by it and of 1.0% to 2.0% per annum on loans to the private sector guaranteed by it.

The following table sets forth information concerning loan guarantees made by Nafinsa during the four years ended June 30, 1975, and the aggregate loan guarantees outstanding for the five years ended June 30, 1975.

TOTAL GUARANTEES BY SECTORS

	Infrastruc- ture Projects	Basic Industry	Manufacturing Industries	Other Activities	Total
	(millions of dollars)				
Guarantees granted during year ended June 30,					
1972	\$—	\$ 75.3	\$ 82.0	\$—	\$ 157.3
1973	11.8	343.4	71.6	—	426.8
1974	—	619.1	51.1	0.4	670.6
1975	—	435.8	71.0	—	505.8
1975 as a % of total	—	86.0%	14.0%	—	100.0%
Guarantees outstanding at June 30,					
1971	\$55.4	\$ 608.5	\$115.6	\$8.9	\$ 788.4
1972	55.0	659.8	115.1	5.5	835.4
1973	53.2	740.9	142.4	4.0	940.5
1974	48.3	1,163.5	131.8	3.3	1,346.9
1975	44.8	1,383.2	139.6	4.0	1,571.6
1975 as a % of total	2.9%	88.0%	8.9%	0.2%	100.0%

The following table sets forth, at June 30, 1975, information concerning the ten entities that accounted for 97% of Nafinsa's total loan guarantees. All are part of the public sector except Mexicana de Cobre, S.A. and Cia. Mexicana de Aviacion, S.A.

LARGEST GUARANTEES		Total Loans Guaranteed by Nafinsa
Organization	Principal Activity	(millions of dollars)
Comision Federal de Electricidad	Generation and transmission of electric power	\$ 791
Siderurgica Lazaro Cardenas—Las Truchas, S.A.	New iron and steel production facility	170
Mexicana de Cobre, S.A.	Production of electrolytic copper	150
Diesel Nacional, S.A.	Manufacture of automotive vehicles	112
Aeronaves de Mexico, S.A.	Airline	89
Cia. Mexicana de Aviacion, S.A.	Airline	69
Ferrocarriles Nacionales de Mexico	National railroad system	49
Caminos y Puentes Federales de Ingresos y Servicios Conexos	Operation of toll roads and bridges	45
Cia. Minera Autlan, S.A.	Production of ferromanganese	29
Altos Hornos de Mexico, S.A.	Iron and steel production	15
		<u>\$1,519</u>

Equity Investments

In furtherance of its central role in financing Mexican industrial development, Nafinsa makes equity investments in Mexican enterprises. Such equity investments are generally made when private capital is not available or sufficient. At June 30, 1975, the net carrying amount of Nafinsa's equity investments aggregated P 5,359 million (\$429 million) after deducting a valuation allowance and before reserves and assignments to the Fondos Comunes. Nafinsa's share of the aggregate underlying equity in the companies in which it has invested exceeded the aggregate net carrying value of its investment in those companies.

The following table sets forth, at June 30, 1975, information concerning the largest equity investments of Nafinsa. The total of such investments represented 85% of Nafinsa's total equity investments as of that date.

LARGEST EQUITY INVESTMENTS				
Corporation	Principal Activity	% of Total Equity Owned by Nafinsa	Net Carrying Amount of Investment on Books of Nafinsa	Nafinsa's Share of the Underlying Equity(1)
			(millions of dollars)	
Altos Hornos de Mexico, S.A.	Iron and steel production	70.1%	\$ 96	\$154
Guanos y Fertilizantes de Mexico, S.A.	Fertilizer production	99.0	80	93
Siderurgica Lazaro Cardenas-Las Truchas, S.A.	New iron and steel production facility	25.0	43	43
Fundidora Monterrey, S.A.	Iron and steel production	30.1	31	43
Diesel Nacional, S.A.	Manufacture of automotive vehicles	78.0	31	22
Azufrera Panamericana, S.A.	Sulphur production	40.6	22	11
Telefonos de Mexico, S.A.	Telephone service	5.0	22	24
Cia. Minera de Cananea, S.A.	Mining	19.9	10	14
Mexicana de Cobre, S.A.	Production of electrolytic copper	38.0	9	9
Cobre de Mexico, S.A.	Copper exploration	48.1	6	6
Tabacalera Mexicana, S.A.	Manufacture of tobacco products	35.4	6	7
Banco Internacional, S.A.	Commercial banking	52.0	5	6
Celanese Mexicana, S.A.	Synthetic fiber production	4.2	4	6

(1) Most recently reported stockholders' equity of each corporation multiplied by the percentage of Nafinsa's ownership.

Sources of Funds

The principal sources of funds used by Nafinsa in its business are borrowings in Mexico and abroad and repayments of its outstanding loans. At June 30, 1975, outstanding foreign currency borrowings amounted to P 36,703 million (\$2,936 million) and peso borrowings (including those of the Fondos Comunes) of P 19,063 million (\$1,525 million). Approximately 72% of such foreign currency borrowings are repayable in dollars.

The following table sets forth, in dollars, total scheduled repayments of principal on Nafinsa's borrowings outstanding at June 30, 1975. See Note 9 of Notes to the Financial Statements.

SCHEDULED REPAYMENTS ON EXTERNAL BORROWINGS (1)

Due in year ended June 30	Payable in			Total
	Pesos	Dollars	Other Currencies	
		(millions of dollars)		
1976	\$ 6.1	\$508.0	\$56.0	\$570.1
1977	7.4	156.3	58.4	222.1
1978	8.9	211.3	68.4	288.6
1979	10.3	230.2	69.0	309.5
1980	10.6	217.6	58.1	286.3
1981	9.9	191.9	40.1	241.9
1982	8.7	156.1	30.3	195.1
1983	7.2	137.4	28.0	172.6
1984	6.1	98.2	24.4	128.7
1984 and thereafter	37.3	453.6	87.3	578.2

(1) Amounts translated to dollars at rates prevailing on June 30, 1975.

Nafinsa also obtains funds for use in its business from the sale of equity participation certificates issued to it by a trust fund (Fondos Comunes) established and managed by Nafinsa. The trust, a separate entity under Mexican law, is funded with interests in the loan portfolio and in certain other assets of Nafinsa assigned to it by Nafinsa in exchange for interest bearing equity participation certificates. Nafinsa, in turn, sells the trust's certificates to investors, principally financial institutions and agencies of the Government seeking a temporary investment for excess funds. These certificates, when sold, constitute unconditional obligations of Nafinsa and are redeemable (together with accrued interest) upon the demand of the holder. Certificates that are repurchased by Nafinsa are customarily resold within a short period of time. The trust is authorized to issue equity participation certificates in an aggregate principal amount at any one time outstanding of up to P 4,135 million (\$331 million). The value of the assigned assets collateralizing these certificates must at all times equal or exceed the principal amount of the outstanding certificates. Interest revenue on the trust's assets and interest expense on the equity participation certificates are reflected in Nafinsa's statement of income. Any gain or loss at the termination of the fund would be remitted to or sustained by Nafinsa. At June 30, 1975, the equity participation certificates outstanding totaled P 3,635 million (\$291 million). Interest on the certificates is payable at rates of 5% to 8% per annum. See Notes 1, 4, 5, 6 and 14 of the Notes to Financial Statements.

The following table sets forth the sources of funds of Nafinsa for the two years ended June 30, 1975, together with the application of those funds during the same period.

SUMMARY SOURCES AND APPLICATIONS OF FUNDS

	1974	1975
	(millions of dollars)	
Sources of funds:		
Funds Provided by Operations:		
Loan repayments by borrowers	\$ 630.9	\$ 852.4
Other	44.9	38.5
Total	675.8	890.9
Funds Provided by Financing Obtained from:		
Inside Mexico	97.6	228.8
Outside Mexico	751.3	1,109.3
Total Financing	848.9	1,338.1
Total Sources of Funds	<u>\$1,524.7</u>	<u>\$2,229.0</u>
Applications of Funds:		
Loan disbursements	\$ 873.6	\$1,643.0
Equity investments	89.1	87.0
Repayment of debt	391.0	484.1
Other	171.0	14.9
Total Applications of Funds	<u>\$1,524.7</u>	<u>\$2,229.0</u>

Trust Funds

Nafinsa manages 209 trust funds created primarily by agencies of the Government and state and local governments to stimulate and promote the development of certain sectors of the Mexican economy. From time to time, Nafinsa has made loans from its own resources directly to certain of these trusts as well as to a particular project or industry being developed under these trusts. At June 30, 1975, the trusts administered by Nafinsa aggregated P10,636 million (\$850.8 million). For its fiduciary services to these trust funds, Nafinsa earns a fee based on the size of the fund. Nafinsa's trust fund activities generated fees to Nafinsa aggregating P 28 million (\$2.2 million) for the year ended June 30, 1975. The six largest trusts and their stated objectives and assets at June 30, 1975, are set forth below.

PRINCIPAL TRUST FUNDS

<u>Name</u>	<u>Objective</u>	<u>Total Net Assets</u> (millions of dollars)
Fondo Nacional de Fomento al Turismo	Development, financing and promotion of tourism	\$98.5
Fondo de Garantia y Fomento a la Industria Mediana y Pequena	Credit to medium and small scale industry	43.8
Fondo Nacional de Fomento Ejidal	Promotion of development of rural areas	27.1
Plan Lerma Asistencia Tecnica	Promotion of internal development of Lerma region	16.8
Fondo Nacional de Fomento Industrial	Equity participation in medium and small scale industry	14.6
Fondo Nacional de Estudios de Pre-inversion	Financing of technical and financial feasibility studies	12.7

Nafinsa is also the sole depositary with respect to certain required court and administrative deposits. Under Nafinsa's Organic Law, Mexico will be responsible at all times for such deposits.

PROPERTY

Nafinsa does not invest in real property except to the extent it grants loans secured by real property. In addition to its offices in Mexico City, Nafinsa operates branches in 15 other cities located in Mexico and representative offices in Washington, D.C., Tokyo, Japan and New York, New York.

EMPLOYEES

At June 30, 1975, Nafinsa employed 1860 persons, approximately 43% of whom were engaged in a managerial or professional capacity.

Since 1963, the employees of Nafinsa have been entitled to receive annually a percentage of its profits. The amount of this distribution prior to 1974 was approximately 5%, for 1974 was approximately 6% and for 1975 was approximately 8%.

MANAGEMENT

Directors, Comisarios and Executive Officers

Under its Organic Law, the management of Nafinsa is entrusted to a Board of Directors and a Director General. The Board of Directors consists of seven members, including three members elected by the Government as holder of the Series A shares, three members elected by the holders of Series B shares and the Chairman of the Board who is the Minister of Finance and Public Credit. Directors are elected for a term of two years and may be reelected. An Alternate Director, who acts in the absence of the Director, is named by each Director. Five members of the Board constitute a quorum. The President of Mexico, acting through the Minister of Finance and Public Credit, may veto, within three working days from the date on which he has knowledge thereof, any resolution of the Board that in his opinion jeopardizes the financial stability or prestige of Nafinsa or is contrary to the monetary or credit policy of the Government.

Two comisarios are elected each year, one by each class of stockholders, together with their respective alternates. The comisarios, who observe the conduct of the business and report to the stockholders, may attend meetings of the Board and of the stockholders but have no right to vote.

The principal executive officers of Nafinsa are a Director General, an Associate Director General, two Associate Directors, a Controller General and five General Managers.

The Board members, comisarios and executive officers of Nafinsa are as follows:

Board of Directors

Mario Ramon Beteta—Chairman of the Board and Secretary of Finance and Public Credit

Jose Campillo Sainz—Secretary of Industry and Commerce

Francisco Javier Alejo—Secretary of National Patrimony

Ernesto Fernandez Hurtado—Director General, Bank of Mexico, S.A.

Manuel Sanchez Cuen—Advisor to the Bank of Mexico, S.A.

Miguel Alessio Ruelas—Director General, Benito Juarez-Pena Colorada Mine Consortium, S.A.

Jorge Sanchez Mejorada—President, Mexican Confederation of Industrial Organizations

Alternate Directors

Miguel de la Madrid Hurtado—Undersecretary of Finance and Public Credit

Juan Guillermo Becker Arreola—Assistant Secretary of Industry and Commerce

Alfonso Cebreros Murillo—Assistant Secretary of National Patrimony

Miguel Mancera—Assistant Director, Bank of Mexico S.A.

Fernando Hiriart—Director General of Public Investments for the President
Prudencio Lopez Martinez—General Director of National Council for Education Development
Bernardo Quintana Arrijoja—President, Civil Engineers Association

Comisarios

Victor M. Navarrete—Director General of Credit, Ministry of Finance and Public Credit
Gonzalo Robles—Administrative and Technical Advisor for the Department of Industrial Investigations of the Bank of México, S.A.

Alternate Comisarios

Rogelio Carballo Millan—Assistant Director of Credit of the Secretary of Finance and Public Credit
Horacio Carbajal—Assistant General Director of National Credit Institutions

Secretary of the Board of Directors

Alfonso Garcia Macias

Executive Officers

Gustavo Romero Kolbeck—Director General
David Ibarra Munoz—Associate Director General
Agustin Fouque Diaz—Associate Director—Promotion
Jose Terrones Langone—Associate Director—Companies and trust funds

CAPITAL STOCK

Under its Organic Law, the capital stock of Nafinsa is divided into shares of Series A which are in registered form and shares of Series B which are in bearer form. At June 30, 1975, Nafinsa had outstanding 11,730,000 Series A shares and 8,794,972 Series B shares, each with a par value of 100 pesos per share. Under Nafinsa's Organic Law, the Series A shares must at all times represent at least 51% of the total capital stock and all such shares must be owned by the Government. At June 30, 1975, the Government owned directly 64% of the capital stock of Nafinsa and through agencies of the Government and other Government institutions owned indirectly an additional 4%. Under Nafinsa's Organic Law, finance and investment companies may be required to subscribe to Series B shares of Nafinsa in amounts up to 5% of their equity capital and reserves, and stock exchanges and insurance companies may be required to subscribe to such shares in amounts up to 3% of their equity and reserves.

Net income from each fiscal year is allocated by the stockholders at the annual meeting in accordance with the following order of priority: (1) an amount equal to 10% of net income is allocated to a legal reserve until such reserve reaches an amount equal to the aggregate par value of the subscribed capital stock; (2) an amount is set aside for the payment of the annual cumulative preferred dividend on the Series B shares at the rate of 8% of the par value thereof (i.e., 8 pesos per share) and any arrearages thereon; and (3) a noncumulative dividend on the Series A shares at the rate of 8% of the par value thereof (i.e., 8 pesos per share) is set aside. After such dividends have been set aside, the meeting may allocate such amounts, if any, as it may determine for other purposes, including other reserves; and the meeting may thereafter determine to set aside additional dividends to the Series A and Series B shares, both Series sharing equally therein without regard to class. Any remaining balance shall be regarded as surplus pending application until the next meeting.

· OPINION OF INDEPENDENT AUDITORS

*The Board of Directors of
Nacional Financiera, S. A.*

We have examined the accompanying statement of financial position of Nacional Financiera, S. A. at June 30, 1975, and the related statements of income, stockholders' equity and changes in financial position for the five years then ended, and the related notes. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above, expressed in Mexican pesos, present fairly the financial position of Nacional Financiera, S. A. at June 30, 1975, and the results of operations for the five years then ended, in conformity with accounting principles generally accepted for banks in Mexico applied on a consistent basis.

MANCERA HERMANOS y CIA., S. C.

Mexico City
August 29, 1975

NACIONAL FINANCIERA, S. A.

STATEMENT OF FINANCIAL POSITION

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
ASSETS				
Cash:				
On deposit with Bank of Mexico	P 389	\$ 31	P 112	\$ 9
Other	731	59	1,442	115
	<u>1,120</u>	<u>90</u>	<u>1,554</u>	<u>124</u>
Interest bearing obligations, at cost which approximates realizable value:				
Mexican government	1,102	88	597	48
Other	637	51	1,463	117
	<u>1,739</u>	<u>139</u>	<u>2,060</u>	<u>165</u>
Equity investments, less allowance of P 223 million (Note 3):	<u>4,420</u>	<u>354</u>	<u>5,674</u>	<u>454</u>
Loans:				
Mexican peso (Note 4)	22,445	1,795	29,213	2,337
Foreign currency (Note 5)	27,501	2,200	31,507	2,521
	<u>49,946</u>	<u>3,995</u>	<u>60,720</u>	<u>4,858</u>
Other assets (Note 6)	<u>1,717</u>	<u>137</u>	<u>1,836</u>	<u>147</u>
Total assets	<u>58,942</u>	<u>4,715</u>	<u>71,844</u>	<u>5,748</u>
Fondos Comunes:				
Assets of Nafinsa assigned to Fondos Comunes (Note 14)	3,635	291	4,135	331
Total assets of Nafinsa and Fondos Comunes	<u>P 62,577</u>	<u>\$5,006</u>	<u>P 75,979</u>	<u>\$6,079</u>
LIABILITIES				
Financial debentures and certificates (Note 8)	P 14,712	\$1,177	P 17,487	\$1,399
External borrowings (Note 9):				
Mexican peso	1,770	141	2,011	161
Foreign currency	35,649	2,852	44,822	3,586
	<u>37,419</u>	<u>2,993</u>	<u>46,833</u>	<u>3,747</u>
Deposits	2,071	166	2,663	213
Accrued interest	868	69	1,089	87
Accounts payable and other accrued liabilities	123	10	84	7
Unearned income	876	70	888	71
Total liabilities	<u>56,069</u>	<u>4,485</u>	<u>69,044</u>	<u>5,524</u>
Contingencies and commitments (Note 10)	—	—	—	—
STOCKHOLDERS' EQUITY				
Capital stock (Note 11)	2,053	164	2,053	164
Statutory reserve (Note 12)	518	41	550	44
Other reserves	33	3	33	3
Undivided profits (Note 13)	269	22	164	13
Total stockholders' equity	<u>2,873</u>	<u>230</u>	<u>2,800</u>	<u>224</u>
Total liabilities and stockholders' equity	<u>58,942</u>	<u>4,715</u>	<u>71,844</u>	<u>5,748</u>
Fondos Comunes:				
5%-8% equity participation certificates redeemable on demand (Note 14)	3,635	291	4,135	331
Total liabilities and stockholders' equity of Nafinsa and Fondos Comunes	<u>P 62,577</u>	<u>\$5,006</u>	<u>P 75,979</u>	<u>\$6,079</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NACIONAL FINANCIERA, S. A.
STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended June 30,						December 31 (unaudited)	
	1971	1972	1973	1974	1975	1975	1975	1975
	(millions of pesos)						(millions of dollars)	(millions of pesos)
Source of funds:								
From operations:								
Net income	P 160	P 163	P 239	P 252	P 269	\$ 22	P 164	\$ 13
Items not requiring the use of funds— net	(12)	61	71	(3 ^A)	(107)	(9)	(128)	(10)
	148	224	310	218	162	13	36	3
Increase (decrease) in financial debentures and certificates	2,375	1,369	(227)	(875)	1,392	111	2,775	222
Increase in long-term borrowings	1,533	39	5,526	4,725	8,387	671	9,414	753
Increase (decrease) in other liabilities ...	(146)	363	840	896	599	48	786	63
Issuance of capital stock				563	192	15		
Funds from sale of equity participation certificates (Note 14)					1,500	120	500	40
Total	<u>P 3,910</u>	<u>P 1,995</u>	<u>P 6,449</u>	<u>P 5,527</u>	<u>P 12,232</u>	<u>\$ 978</u>	<u>P 13,511</u>	<u>\$ 1,081</u>
Use of funds:								
Increase (decrease) in cash	P 158	P 97	P 485	P 289	P (33)	\$ (3)	434	35
Increase (decrease) in interest bearing obligations	1,054	(488)	(1,306)	507	366	29	321	26
Increase in loans	2,475	2,000	6,119	3,400	10,584	847	11,274	902
Increase in equity investments	43	122	627	1,005	885	71	1,122	89
Increase in other assets	57	100	403	166	204	16	123	10
Cash dividends including taxes thereon ..	123	118	121	160	226	18	237	19
Total	<u>P 3,910</u>	<u>P 1,995</u>	<u>P 6,449</u>	<u>P 5,527</u>	<u>P 12,232</u>	<u>\$ 978</u>	<u>P 13,511</u>	<u>\$ 1,081</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NACIONAL FINANCIERA, S. A.
STATEMENT OF STOCKHOLDERS' EQUITY

June 30, 1970 to December 31, 1975

	<u>Capital stock</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Undivided profits</u>
		(millions of pesos)		
Balance at June 30, 1970	P 1,300	P 290	P 31	P 162
Reserve appropriation		39		(39)
Dividends				(117)
Tax on dividends				(6)
Net income				160
Balance at June 30, 1971	<u>1,300</u>	<u>329</u>	<u>31</u>	<u>160</u>
Reserve appropriation		38		(38)
Dividends				(117)
Tax on dividends				(1)
Net income				163
Balance at June 30, 1972	<u>1,300</u>	<u>367</u>	<u>31</u>	<u>167</u>
Reserve appropriation		46		(46)
Dividends				(117)
Tax on dividends				(4)
Net income				239
Balance at June 30, 1973	<u>1,300</u>	<u>413</u>	<u>31</u>	<u>239</u>
Issuance of 5,100,000 series "A" shares at par value of 100 pesos each, plus premium	510			
Issuance of 516,982 series "B" shares at par value of 100 pesos each	52		1	
Reserve appropriation		79		(79)
Dividends				(156)
Tax on dividends				(4)
Net income				252
Balance at June 30, 1974	<u>1,862</u>	<u>492</u>	<u>32</u>	<u>252</u>
Issuance of 1,907,990 series "B" shares at par value of 100 pesos each, plus premium	191		1	
Reserve appropriation		26		(26)
Dividends				(225)
Tax on dividends				(1)
Net income				269
Balance at June 30, 1975	<u>2,053</u>	<u>518</u>	<u>33</u>	<u>269</u>
Reserve appropriation		32		(32)
Dividends				(235)
Tax on dividends				(2)
Net income				164
Balance at December 31, 1975 (unaudited)	<u><u>P 2,053</u></u>	<u><u>P 550</u></u>	<u><u>P 33</u></u>	<u><u>P 164</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS

NOTE 1) *Significant accounting policies and practices*

Nacional Financiera, S. A. ("Nafinsa") is a national credit institution of the Federal Government of Mexico. Nafinsa is engaged principally in making and guaranteeing loans to finance the development of Mexico's economic infrastructure and industries of the public sector (which means the Government, agencies of the Government and corporations controlled, directly or indirectly, by the Government). Nafinsa's financing activities generally complement other sources of capital. Accordingly, it provides loans to Mexican entities of longer maturities than are normally available to them elsewhere in the capital markets and often finances projects that are of a longer term developmental nature and involve a higher degree of risk than would usually be undertaken by private financial institutions. The accounting policies and practices of Nafinsa are in accordance with accounting principles and rules specified for Mexican banks by the Comision Nacional Bancaria y de Seguros (National Banking and Insurance Commission). Significant policies and practices are outlined below:

Equity investments—Equity investments are held for long-term purposes and are generally recorded at acquisition cost or contributed value plus the par value of stock dividends that have been declared from accumulated undivided profits of investee companies. If the underlying equity in a company is less than the carrying value of Nafinsa's investment therein, no value is assigned the stock dividend received from such a company until the underlying equity exceeds the carrying value. The stock dividends generally represent distributions based upon current or prior period earnings of investee companies in lieu of cash dividends.

Provision is made for any permanent impairment of value in an equity investment with the approval of the National Banking and Insurance Commission.

Nafinsa has not consolidated the companies in which it has ownership of the majority voting control nor has it followed equity accounting for investments in companies in which it owns 50% or less of the voting control.

Loan renewals—Nafinsa will from time to time renew or restructure a loan when a borrower has or might have difficulty meeting its terms. In general, this practice has been followed only with loans to the public sector. In some cases, such action involves issuing a new loan whose principal includes both unpaid principal and interest on the old loan. Because substantially all of such loans carry the specific guarantee of the Government with respect to both principal and interest, interest income has been recognized by Nafinsa on the accrual basis in such cases.

Loan losses—If Nafinsa considers a loan to be in part or wholly uncollectible, it is segregated and an appropriate allowance for loss is provided with the approval of the National Banking and Insurance Commission. The allowance for losses is based on evaluations of individual loans and is the total of amounts provided for specific doubtful receivables. Management of Nafinsa is of the view that no general allowance in addition to the specific loan allowances is needed because of the nature of the institution and because a substantial percentage of loans outstanding are guaranteed by the Government.

Fondos Comunes—The assets of this trust are represented by assignments of interests in the loan portfolio and other assets of Nafinsa; such assignments are an allocation of certain categories of assets rather than by identification of specific assets. In addition, the revenues and expenses of the trust are combined with comparable items in Nafinsa's income statement.

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS—Continued

Any gain or loss on the termination of the trust would be remitted to or sustained by Nafinsa. Though Nafinsa exercises management control over the trust and retains some of the risks and rewards of ownership of trust assets, the Fondos Comunes is a separate legal entity. Accordingly, the total assets assigned to the trust and the liability for its equity participation certificates are shown separately on the balance sheet.

Indemnities—Under the Mexican labor law, Nafinsa has an obligation to pay indemnities to employees who are dismissed or who resign under certain circumstances. Nafinsa charges indemnity payments to operations during the year in which they become payable. The statement of financial position does not include a provision to cover this obligation.

Currency translations—The financial statements are presented in Mexican pesos. Dollar amounts have been included solely for convenience and are stated, as a matter of arithmetic translation only, at the rate of 12.50 pesos per \$1.00.

Foreign currency accounts within the records of Nafinsa have been translated into Mexican pesos for each fiscal year at the rates of exchange prevailing on June 30 of such years. Unrealized gains and losses on translation are reflected in income and have not been material in any one year.

Trust assets and fees—Assets held in fiduciary or agency capacities are not included in the accompanying statement of financial position, since they are not assets of Nafinsa. Commission revenues from trust services are included in income on the accrual basis.

Reclassifications—For presentation purposes in the preparation of the accompanying financial statements, Nafinsa has made certain reclassifications and has included additional notes and financial statements to more closely reflect reporting practices in the United States of America. The reclassifications include the offsetting of an appraisal surplus from the revaluation of real estate in the amount of P 12 million (\$1 million) against the related asset accounts.

NOTE 2) *Accounting principles and practices in Mexico and in the United States of America*

Accounting principles and practices in Mexico are generally similar to those followed in the United States of America. Some areas of differences in the financial statements of Nafinsa are discussed below:

Provision for loan losses—As previously indicated, management of Nafinsa is of the view that no general allowance for loan losses is needed in addition to the specific loan allowances that have been provided; however, financial institutions in the United States of America will in most cases establish general allowances for loan losses in addition to those that are based on loans that are doubtful of collection as of a specific date. The amounts of these general allowances in the United States of America are based on past experience and management's views as to the possibility that their present portfolio of loans in good standing may sustain losses in the future.

Stock dividends—The National Banking and Insurance Commission permits banks in Mexico to record stock dividends received at no value (with only an adjustment for the dividend shares), or the stock dividend may be recorded at the par value thereof. Nafinsa has elected to follow the latter procedure and generally records stock dividends as income and increases the carrying value of the related investment by a corresponding amount when equity exceeds the carrying value. For the effect of this accounting on operations, see Note c to the Statement of Income.

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS—Continued

Under accounting principles in the United States of America, neither dividend income nor an increase in the carrying value of an investment would be recorded upon receipt of a stock dividend. In addition, the deferral and amortization of the stock dividend of Altos Hornos de Mexico, S. A. described in Note c to the Statement of Income would be considered an exception.

NOTE 3) *Equity investments*

The equity investments were comprised of the following, after deducting a valuation allowance of P 223 million:

	June 30, 1975		December 31, 1975 (unaudited)			
	Net carrying amount		Net carrying amount			
	Per cent ownership	Millions of pesos	Millions of dollars	Per cent ownership	Millions of pesos	Millions of dollars
Companies in which more than 50% of voting shares are owned:						
Altos Hornos de Mexico, S.A.	70%	P 1,192	\$ 96	79%	P 1,438	\$115
Diesel Nacional, S.A.	78	390	31	36	390	31
Guanos y Fertilizantes de Mexico, S.A.	99	1,000	80	99	1,325	106
Banco Internacional, S.A.	52	65	5	52	65	5
Other		249	20		256	21
		<u>2,896</u>	<u>232</u>		<u>3,474</u>	<u>278</u>
Companies in which 50% or less of voting shares are owned		<u>2,463</u>	<u>197</u>		<u>3,139</u>	<u>251</u>
		<u>5,359</u>	<u>429</u>		<u>6,613</u>	<u>529</u>
Less equity investments assigned to the Fondos Comunes (Note 14)		939	75		939	75
Total		<u>P 4,420</u>	<u>\$354</u>		<u>P 5,674</u>	<u>\$454</u>

In the aggregate, the underlying equity of these investments exceeds the carrying amount.

NOTE 4) *Mexican peso loans*

Mexican peso loans are summarized below:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
Loans based on open lines of credit or current accounts	P 16,396	\$1,312	P 19,037	\$1,523
Bills and acceptances discounted	1,366	109	1,444	116
Chattel mortgages and collateralized loans	6,631	530	11,180	894
	<u>24,393</u>	<u>1,951</u>	<u>31,661</u>	<u>2,533</u>
Less loans assigned to the Fondos Comunes (Note 14)	1,948	156	2,448	196
	<u>P 22,445</u>	<u>\$1,795</u>	<u>P 29,213</u>	<u>\$2,337</u>

Over 90% of the principal amount of the foregoing loans are to the public sector. Substantially all of these loans are payable or guaranteed by the Government.

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE 5) *Foreign currency loans*

Loans made by Nafinsa in foreign currencies totaled P 28,213 million (\$2,257 million) at June 30, 1975 and P 32,219 million (\$2,578 million) at December 31, 1975. Of this total, an amount of P 712 million (\$57 million) at June 30, 1975 and P 712 million (\$57 million) at December 31, 1975 has been assigned to the Fondos Comunes (see Note 14) and the net amount of foreign currency loans on Nafinsa's statement of financial position is P 27,501 million (\$2,200 million) at June 30, 1975 and P 31,507 million (\$2,521 million) at December 31, 1975.

Over 90% of the principal amount of the foreign currency loans are to the public sector. Substantially all of these loans are payable or guaranteed by the Government. In addition, many of these loans represent funds borrowed by Nafinsa in foreign currencies and reloaned in the same currencies to cover the financing requirements of specific projects in the public sector; see Note 9.

The profit or loss on foreign currency loans that results from changes in the exchange rates of foreign currencies is for the account of the borrower.

NOTE 6) *Other assets*

Other assets were comprised of the following:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
Receivables:				
Commissions from guarantees	P 301	\$ 24	P 440	\$ 35
Interest	339	27	315	25
Government departments	274	22	229	18
Mortgage loans to employees	165	13	196	16
Doubtful loans, less allowance of P 166 million (Note 7)	59	5	53	4
Other	84	7	127	10
	<u>1,222</u>	<u>98</u>	<u>1,360</u>	<u>108</u>
Furniture and equipment—at cost, less accumulated depreciation of P 39 million	33	3	32	3
Real estate and investments in real estate companies—at cost, less allowance of P 1 million	102	8	101	8
Prepaid expenses	327	26	317	26
Sundry	66	5	59	5
	<u>1,750</u>	<u>140</u>	<u>1,869</u>	<u>150</u>
Less real estate investments assigned to the Fondos Comunes (Note 14):	33	3	33	3
	<u>P 1,717</u>	<u>\$137</u>	<u>P 1,836</u>	<u>\$147</u>

NOTE 7) *Allowance for loan losses*

A summary analysis of the allowance for loan losses for the five years ended June 30, 1975, follows:

	Year ended June 30,				
	1971	1972	1973	1974	1975
	(millions of pesos)				
Balance at beginning of year	P 142	P 119	P 116	P 162	P 168
Provision charged to expense	1	—	57	10	41
Other additions	18	27	28	24	23
	<u>161</u>	<u>146</u>	<u>201</u>	<u>196</u>	<u>232</u>
Less loans and other receivables charged off	42	30	39	28	66
Balance at end of year	<u>P 119</u>	<u>P 116</u>	<u>P 162</u>	<u>P 168</u>	<u>P 166</u>

The allowance for loan losses is determined by Nafinsa and loans and other receivables are charged off, only as of the end of each fiscal year.

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS—Continued

NOTE 8) *Financial debentures and certificates*

Nafinsa has issued various series of bonds and debt certificates. A summary of these debt securities follows:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
8.5—12.9% debt certificates	P 840	\$ 67	P 1,105	\$ 88
9.5—14.2% debt certificates	5,709	457	7,111	569
3% financial debentures	356	28	357	29
9—11% financial debentures	5,329	427	6,580	526
12.7—15.1% financial debentures	2,015	161	1,933	155
7.3% financial obligations	463	37	401	32
	<u>P 14,712</u>	<u>\$ 1,177</u>	<u>P 17,487</u>	<u>\$ 1,399</u>

Of the total of financial debentures and certificates outstanding at June 30, 1975 and December 31, 1975, P 7,039 million (\$563 million) and P 8,504 million (\$680 million), respectively, mature within one year. In addition to these amounts, at June 30, 1975 and December 31, 1975, approximately P 4,629 million (\$370 million) and P 5,987 million (\$479 million) were payable by Nafinsa on demand by the holder. Substantially all of the financial debentures and certificates are payable in pesos; at June 30, 1975 and December 31, 1975, P 1,054 million (\$84 million) and P 1,207 million (\$96 million), respectively, were payable in dollars.

Nafinsa had pledged the following assets as collateral under provisions of certain of the above securities totaling P 7,898 million (\$632 million) at June 30, 1975 and P 9,061 million (\$725 million) at December 31, 1975:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
Interest bearing obligations	P 129	\$ 10	P 120	\$ 10
Equity investments	812	65	1,729	138
Loans	6,957	557	7,212	577
Total	<u>P 7,898</u>	<u>\$ 632</u>	<u>9,061</u>	<u>\$ 725</u>

NOTE 9) *External borrowings*

External borrowings are summarized below:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
Mexican peso borrowing	<u>P 1,770</u>	<u>\$ 141</u>	<u>P 2,011</u>	<u>\$ 161</u>
Foreign currency borrowings:				
Specific project borrowings				
International Bank for Reconstruction and Development (World Bank)	5,734	459	6,277	502
Inter-American Development Bank	5,736	459	6,479	518
Export-Import Bank of the United States	1,655	132	1,739	139
Other	10,867	869	14,739	1,179
General borrowings from foreign financial institutions	23,992	1,919	29,234	2,338
Total foreign currency borrowings	<u>11,657</u>	<u>933</u>	<u>15,588</u>	<u>1,248</u>
Total external borrowings	<u>P 37,419</u>	<u>\$ 2,993</u>	<u>P 46,833</u>	<u>\$ 3,747</u>

The weighted average interest rate on external borrowings for the year ended June 30, 1975 approximated 7.9%.

Nafinsa's Organic Law provides that the Mexican Nation will be responsible at all times for Nafinsa's obligations under loans made to Nafinsa by foreign private, governmental or inter-governmental institutions.

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS—Continued

“Specific project borrowings” represent foreign currencies borrowed by Nafinsa which are reloaned in the same currencies to the public sector; see Note 5. Any profit or loss resulting from changes in the exchange rates of foreign currencies on such transactions are for the accounts of the entities to whom the funds are reloaned.

The amounts of external borrowings due in other currencies are summarized by currency below:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
United States dollars	P 25,190	\$2,015	P 35,170	\$2,814
French francs	2,114	169	1,071	86
German marks	1,896	152	1,836	147
Swiss francs	950	76	928	74
Canadian dollars	653	52	661	53
Other foreign currencies	4,846	388	5,156	412
Total long-term external borrowings	<u>P 35,649</u>	<u>\$2,852</u>	<u>P 44,822</u>	<u>\$3,586</u>

Nafinsa had credit commitments, principally from foreign banking institutions, totaling P 13,475 million (\$1,778 million) as of June 30, 1975 and P 14,524 million (\$1,162 million) at December 31, 1975.

For unaudited information on maturities of external borrowings; see “Business—Source of Funds” elsewhere in this Prospectus.

NOTE 10) *Contingencies and commitments*

A summary of contingent liabilities follows:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
Guarantees	P 19,644	\$1,571	P 20,442	\$1,635
Collateral guarantees on discounts	422	34	488	39
Other contingent liabilities	85	7	84	7
Total	<u>P 20,151</u>	<u>\$1,612</u>	<u>P 21,014</u>	<u>\$1,681</u>

The endorsements and guarantees have arisen principally in connection with loans obtained by public or private concerns in Mexico from suppliers and banking institutions abroad under conditions which required a guarantee of the individual loans. In most cases, the Government has in turn agreed to indemnify Nafinsa if it is required to honor a guarantee.

Nafinsa had undisbursed loan commitments aggregating P 15,947 million (\$1,276 million) at June 30, 1975 and P 19,418 million (\$1,553 million) at December 31, 1975.

NOTE 11) *Capital stock*

The authorized capital consists of two classes of stock which were as follows:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
Series A common stock, 100 pesos par value; authorized, issued and outstanding 11,730,000 shares	P 1,173	\$ 94	P 1,173	\$ 94
Series B 8% cumulative preferred stock, 100 pesos par value; authorized 11,270,000 shares; issued and outstanding 8,794,972 shares	880	70	880	70
	<u>P 2,053</u>	<u>\$164</u>	<u>P 2,053</u>	<u>\$164</u>

NACIONAL FINANCIERA, S. A.

NOTES TO FINANCIAL STATEMENTS—Concluded

All the Series A common shares are owned by the Government which under the special legislation that created Nafinsa must own at least 51% of Nafinsa's capital stock.

The Series B 8% cumulative preferred dividend shares have no arrearages in dividends. This is a participating preferred and thus, in addition to the 8% cumulative dividend, shares equally in dividends with the Series A common stock after that class of securities receives an 8% dividend. Total dividends on Series B cumulative preferred shares were paid at the rate of 9% based on earnings for the fiscal years ended June 30, 1971 and 1972 and 12% based on earnings for the years ended June 30, 1973, 1974 and 1975.

NOTE 12) *Statutory reserve*

In accordance with the General Law of Credit Institutions of Mexico, Nafinsa is required to appropriate 10% of its net profits to a legal reserve. Such appropriations must continue until the amount of the reserve is equal to 100% of the capital stock issued and outstanding.

NOTE 13) *Tax on dividends*

Undivided profits and capital reserves, if distributed to shareholders, are subject to the payment of taxes in accordance with the following:

- a) A 15% tax on profits and reserves generated prior to December 31, 1964.
- b) A tax of from 15% to 21% on profits and reserves generated after January 1, 1965, except when dividends are paid to the Government and to Mexican credit, insurance or investment companies.

NOTE 14) *Fondos Comunes*

The Fondos Comunes (a trust fund) issues equity participation certificates to Nafinsa in exchange for assignments of interests in certain assets of Nafinsa. Nafinsa subsequently sells the trust's certificates to investors and is obligated to repurchase them on demand by the holders; the repurchased certificates are resold to other investors. Condensed balance sheets of the Fondos Comunes follow:

	June 30, 1975		December 31, 1975 (unaudited)	
	Millions of pesos	Millions of dollars	Millions of pesos	Millions of dollars
ASSETS				
Assignments of interests in:				
Equity assignments (Note 3)	P 939	\$ 75	P 939	\$ 75
Loans				
Mexican pesos (Note 4)	1,948	156	2,448	196
Foreign currency (Note 5)	712	57	712	57
Real estate investments (Note 6)	33	3	33	3
Other	3	—	3	—
	<u>P 3,635</u>	<u>\$291</u>	<u>P 4,135</u>	<u>\$331</u>
LIABILITIES				
5%-8% equity participation certificates redeemable on demand (collateralized by assets of trust fund)	<u>P 3,635</u>	<u>\$291</u>	<u>P 4,135</u>	<u>\$331</u>

The equity participation certificates outstanding and the related assets of the trust were increased by P 1,500 million (\$120 million) in the year ended June 30, 1975 and by P 500 million (\$40 million) in the six months ended December 31, 1975. There were no changes in total equity participation certificates outstanding during the four years ended June 30, 1974.

MEXICO

General

Mexico constitutes a single nation consisting of 31 states and the Federal District, which contains Mexico City, the nation's capital and largest city. Mexico City's metropolitan area, including the part located in the State of Mexico, had a population of 11,340,000 at June 30, 1975. A sovereign nation since 1821, Mexico is the second largest Latin American country in terms of population and the third largest in area. Mexico has a total area of approximately 762,000 square miles. It shares a common border of 1,942 miles with the United States. See "Map of Mexico".

Based on the most recent census, Mexico's population at June 30, 1970 was 50,694,617, representing an increase of approximately 14,325,875 (39%) since 1960 and 24,088,183 (91%) since 1950. The estimated population of Mexico at June 30, 1975, was 60,145,258. A continuing high birth rate and a substantial decline in mortality rates, principally among infants, resulted in a compound annual rate of population growth of 3.4% from 1960 through 1970 compared with 3.2% for 1950-1960 and 3.0% for 1940-1950. It is estimated that the compound annual rate of Mexico's population growth from 1970 through 1975 remained 3.4%.

Form of Government and Political Parties

The present form of government was established by the Political Constitution of the United Mexican States, which took effect on May 1, 1917, and reflects the objectives of the Revolution of 1910. The Constitution establishes Mexico as a federated republic and vests in the Federal Government responsibility for most important governmental functions other than those of a primarily local or regional nature.

The Constitution provides for the separation of executive, legislative and judicial powers within the Federal Government. Legislative power is vested in a bicameral Congress consisting of a Senate and a Chamber of Deputies, the members of which are directly elected on the basis of universal adult suffrage so as to provide representation of each state and the Federal District in both houses of Congress. The Constitution provides procedures, rarely used, for rejection of bills by the President and for Congressional enactment overriding such veto. The executive power is vested in the President, elected for a six-year term by direct, popular vote. He may not serve additional terms, whether or not successive.

The Constitution may be amended by the vote of two-thirds of the members of each House of Congress present and constituting a quorum, followed by the approval of a majority of the state legislatures.

In the national elections held in July 1970, Mr. Luis Echeverría Alvarez, a member of the Institutional Revolutionary Party (PRI), was elected President, and PRI candidates were elected to all the seats in the Federal Senate. In the 1973 national elections, of the 230 representatives elected to the Federal Chamber of Deputies, 188 were members of the PRI, while 42 seats were filled by proportional representation by opposition candidates, as follows: Party of National Action (PAN), 25; Popular Socialist Party (PPS), 10; and Authentic Party of the Mexican Revolution (PARM), 7; PRI and its predecessor parties have remained continuously in the majority in Congress and have won all Presidential elections from 1929 to the present. The next election for the Presidency and for the Congress will be held on July 4, 1976. Mr. José López Portillo, formerly Minister of Finance and Public Credit, has been designated by PRI as its presidential candidate at this election.

External Affairs and International Organizations

Mexico is one of the charter members of the United Nations and is a founding member of the Organization of American States (OAS), the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the Inter-Ameri-

can Development Bank. Mexico is a member of the Committee of the Board of Governors of the IMF on the Reform of the International Monetary System and Related Matters (Committee of 20), representing itself, five Central American countries and Venezuela.

Together with most of the other member nations of the OAS, Mexico was a party to the Act of Bogota in 1960 and the Charter of Punta del Este in 1961, under which the Latin American nations and the United States drew up the principles known as the Alliance for Progress. At the Conference of Montevideo in 1960, Mexico and several other Latin American nations initiated the Latin American Free Trade Association (LAFTA), which now includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela, as well as Mexico.

The main purpose of LAFTA is the creation of a free trade zone among its members. This is to be achieved by reducing taxes applicable to imports from other members and by arranging agreements which provide for free trade in certain industrial components.

In October 1975, with the leadership of Mexico and Venezuela, the Latin American Economic System (SELA) was formed with the participation of the following 25 developing countries of the Western Hemisphere: Argentina, Barbados, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Trinidad and Tobago, Uruguay and Venezuela. SELA was conceived to establish a permanent system for the coordination of the external economic policies of the member countries, with a view to promoting a new world economic order that will favor the interests of its members. SELA also seeks to further promote the economic integration of its member countries.

THE MEXICAN ECONOMY

Prior to World War II, the Mexican economy was based principally on agriculture and mining. Since that time, Mexico has placed increasing emphasis on the industrialization of its economy.

Gross Domestic Product (GDP), at constant 1960 prices, increased 26.5% during the 1971-1974 period, with compound annual increase of 6.0%. During this period, Mexico's population increased approximately 14.6%, equivalent to an average annual rate of 3.4%. Thus, average annual increases of real GDP have exceeded average annual population increases and have brought corresponding improvements in average real per capita income.

Economic growth has been based on a high rate of investment, averaging 20.6% of GDP during the 1970's. Approximately 87.0% of this investment has been financed from domestic savings. The balance has come from abroad in the form of loans and direct investments.

In 1974, Mexico's GDP increased 5.9% at constant 1960 prices, as compared to 7.6% in 1973. The slowdown in the rate of increase of GDP during 1974 was mainly due to agricultural production remaining at 1973 levels. The manufacturing, construction and energy industries expanded at lower rates than in 1973. Commerce and governmental services followed the same slower trend. However, the real output of the petroleum, petro-chemicals and mining industries registered higher rates of increases than in 1973. As a result of the insufficient growth of supply in certain sectors, and the expansion of internal demand (mainly caused by public sector expenditures), imports, especially foodstuffs, raw materials and finished goods, increased substantially in 1974.

During 1975, the Mexican economy was adversely affected by the United States' and international economic recessions. Although government expenditures for consumption and investment continued to increase, the rate of growth of private investment and consumption slowed down. Aggregate foreign demand for Mexican goods and services was 0.6% lower than

in 1974; exports, border trade and income from in-bond industries increased by 0.3%, 10.6% and 0.5% respectively, while income from tourism decreased by 4.9%.

In 1975, Mexico's real GDP grew between 3.8% and 4.2%, that is at a lower rate than the one achieved in 1974. The most dynamic activities were the petroleum and petrochemical industries including their by-products. Mining production declined in response to the drop in external demand. As a whole, industrial production was up by 4.1% in 1975; the construction and manufacturing industries grew 4.2% and 3.7%, respectively; clear indications of recovery were shown during the second half of the year. In the agricultural sector, production of grain (except wheat) and oleaginous seeds increased as a result of improved credit facilities; however the growth of farm products was offset by a sharp decline in cotton production. Transportation and communication services rose by 7.0% and government services by 10.0%.

During the second half of 1975, the slower growth in prices—together with the wage increases in some sectors of the economy—began to stimulate domestic demand which, in turn, induced the recovery of some economic activities.

In 1973 and 1974, worldwide inflation caused large increases in the prices of Mexican imports. This, plus a generally expansionary Government fiscal program designed to sustain real growth in the economy, resulted in a 15.7% increase in the Mexico City wholesale price index in 1973 and a further 22.5% increase in 1974, while the Mexico City consumer price index increased 11.2% and 22.5% for the years 1973 and 1974, respectively. In 1975, as compared to 1974, the rate of inflation was reduced to 10.5%, as measured by the Mexico City wholesale price index, and to 16.9%, as measured by the Mexico City consumer price index. This favorable result reflects both a series of government anti-inflation measures initiated in late 1974 as well as reduced external demand. The Government has announced fiscal and monetary policies for 1976 which reflect its intent to further reduce inflation.

During the past five years, imports of goods and services grew at a compound annual rate of 20.7%, while exports of merchandise and services increased by 16.5%. The current account deficit rose sharply in 1975 to \$3,643.4 million.

Notwithstanding the marked growth of imports, the overall balance of payments yielded a surplus in 1975, as gross international reserves of the Bank of Mexico rose by \$165.1 million, to \$1,608.9 million, as of December 31, 1975, computed in accordance with the International Monetary Fund criteria, including silver.

The Government's fiscal program in 1976 is intended to reduce the overall rate of growth of government expenditures while spurring increased production of petroleum products, steel, electrical energy and agricultural output. The 1976 fiscal program also reflects measures adopted in late 1974 and in 1975 to increase taxes on private consumption, including gasoline, increase the personal income tax rate to a maximum rate of 50%, limit business expense deductions and improve tax administration and collection. These policies are expected to increase government revenues from 11.5% of GDP in 1974 to over 13.5% of GDP in 1976. In addition, in order to mobilize greater resources for the public sector, electricity and telephone rates were increased in August 1975 and January 1976, respectively. A goal of the Government's fiscal program is the reduction of the budget deficit of the Government and the budget-controlled agencies and the amount of net public sector borrowing in 1976.

The Government's economic program for 1976 anticipates a decrease in the trade deficit and in the overall current account deficit, as well as a reduction in the amount of net external borrowings by the public sector. These anticipated improvements in the balance of payments will be the result of Government programs initiated during the past four years to increase output of the petroleum, steel and agricultural sectors and to increase earnings from tourist



MAP OF MEXICO

and in-kind industries. It is anticipated that the expansion of industrial output in 1976 can be achieved with a smaller increase in imports of capital goods than has historically been the case, because of the availability of idle installed plant capacity and the completion of projects commenced during the last four years. Assuming a continuing economic recovery in the United States, the Government expects increased external demand for Mexican goods and services in 1976.

New oil discoveries and increased crude production beginning in the second half of 1974 have turned Mexico into a net exporter of petroleum products. See "Petroleum and Related Products."

Gross Domestic Product and Expenditures

The following table sets forth for the years indicated Gross Domestic Product and imports of goods and services, together with expenditure of the total available supply of such goods and services on exports, private and public consumption and gross fixed investment.

GROSS DOMESTIC PRODUCT AND EXPENDITURES

	1970	1971	1972	1973	1974
	(millions of pesos)				
Gross Domestic Product at Current Prices	418,700	452,400	512,300	619,600	812,900
Add: Imports of Goods and Services	42,595	40,785	48,499	63,671	95,029
Total Supply of Goods and Services	461,295	493,185	560,799	683,271	907,929
Less: Exports of Goods and Services	33,873	37,438	45,113	58,127	76,687
Total Goods and Services Available for Domestic Expenditure	427,422	455,747	515,686	625,144	832,242
Allocation of Total Goods and Services:					
Private Consumption(1)	312,647	336,835	370,799	438,026	571,118
Public Consumption	32,575	36,712	43,687	56,118	77,624
Total Consumption	345,222	373,547	414,486	494,144	648,742
Private Gross Fixed Investment	50,930	59,641	66,485	81,162	118,997
Public Gross Fixed Investment	31,270	22,559	34,715	49,838	64,503
Total Gross Fixed Investment	82,200	82,200	101,200	131,000	183,500
Total Domestic Expenditure	427,422	455,747	515,686	625,144	832,242
	(Percentages of Gross Domestic Product)				
Gross Domestic Product at Current Prices	100.0%	100.0%	100.0%	100.0%	100.0%
Add: Imports of Goods and Services	10.2	9.0	9.5	10.3	11.7
Less: Exports of Goods and Services	8.1	8.3	8.8	9.4	9.3
Total Goods and Services Available for Domestic Expenditure	102.1	100.7	100.7	100.9	102.4
Allocation of Total Goods and Services:					
Total Consumption	82.5	82.6	80.9	79.8	79.8
Total Gross Fixed Investment	19.6	18.1	19.8	21.1	22.6
Total Domestic Expenditure	102.1	100.7	100.7	100.9	102.4
Gross Domestic Product (in millions of pesos) at Constant 1960 Prices	296,600	306,800	329,100	354,100	375,100
Annual Percentage Increase at Constant 1960 Prices ..	6.9%	3.4%	7.3%	7.6%	5.9%

(1) Includes changes in inventories.

Gross Domestic Product by Major Sectors

The following table sets forth Mexico's Gross Domestic Product by major sectors for the years indicated.

GROSS DOMESTIC PRODUCT BY MAJOR SECTORS

	(millions of pesos at constant 1960 prices)							1960	1974
	1950	1960	1970	1971	1972	1973	1974(1)	(as % of Gross Domestic Product)	(as % of Gross Domestic Product(1))
Agriculture	10,176	14,790	21,140	21,517	20,955	21,389	21,243	9.8%	5.7%
Livestock	4,032	7,966	11,848	12,204	12,832	13,076	13,520	5.3	3.6
Forestry	992	882	1,149	1,085	1,173	1,252	1,277	0.6	0.3
Fishing	242	332	398	430	445	462	470	0.2	0.1
Mining	1,839	2,306	2,859	2,871	2,865	3,166	3,589	1.5	1.0
Petroleum, Coke, Basic Petrochemicals	2,104	5,128	12,675	13,111	14,282	14,672	17,071	3.4	4.6
Manufacturing	16,064	28,892	67,680	69,745	75,524	82,255	86,733	19.2	23.1
Construction	2,998	6,105	13,583	13,230	15,558	18,016	18,628	4.1	5.0
Electricity	462	1,502	5,357	5,784	6,297	6,987	7,690	1.0	2.0
Transportation, Communication	2,912	4,966	9,395	10,098	11,102	12,385	13,800	3.3	3.7
Commerce	25,799	46,880	94,491	97,326	104,041	111,968	118,652	31.2	31.6
Services	19,917	32,251	59,592	63,211	68,183	72,877	76,609	21.4	20.4
	87,537	152,030	300,167	310,612	333,257	358,505	379,282	101.0	101.1
Less: Adjustment for Banking Services .	564	1,519	3,567	3,812	4,157	4,405	4,182	1.0	1.1
Total Gross Domestic Product	86,973	150,511	296,600	306,800	329,100	354,100	375,100	100.0%	100.0%

(1) Preliminary.

Role of Government in the Economy

The Mexican economy operates essentially on the principles of a mixed economic system in which both the public and the private sectors have important roles to play. Free enterprise and private ownership of the means of production operate within the framework of constitutional provisions which regulate ownership of rural land, rights to subsurface resources, extraction and distribution of petroleum and petroleum products, and production and distribution of electricity and nuclear energy; these also guarantee the rights of workers and authorize legislation setting minimum wages. It is generally the policy of the Government to operate most of the public utilities as well as to control some key industries, but not to displace private enterprise in the commercial or industrial sectors of the economy except where private capital is unable to initiate or develop essential industrial projects.

The Government's economic role is implemented through a number of semi-autonomous public agencies—statutory bodies, specially chartered corporations, or corporations controlled by the Government through direct or indirect equity investments. For example, Petróleos Mexicanos ("Pemex"), is in charge of exploration, production, refining and distribution of the nation's petroleum resources and the manufacture and first-stage sale of basic petrochemicals and certain other derivatives; the major portion of the electric power industry is operated by the Federal Electricity Commission; the principal railroads are operated by National Railways of Mexico; and many industrial ventures are assisted by Nacional Financiera, S.A.

The Government influences the level and nature of private investment in certain economic activities by granting the concessions required for regulated enterprises, such as mining, by issuing import licenses for raw materials and capital goods, and by restricting the importation of foreign goods competitive with items produced domestically. The Government also provides fiscal incentives by relieving exporters of manufactured goods from export taxes.

In 1974 total public gross fixed investment (Federal, state and local governments and public agencies) amounted to 35.2% of total gross fixed investment.

The following table sets forth the allocation of public gross fixed investment for the years indicated.

PUBLIC GROSS FIXED INVESTMENT
(millions of pesos)

	1971	1972	1973	1974 (1)	1975 Budget (2)	1976 Budget (3)	Total 1971- 1974	Percent- age of Total 1971- 1974
Federal Government(4)	6,806	11,612	16,104	20,492	29,995	31,670	55,014	32.1
Communications and Public Works ..	2,926	5,423	6,522	6,853	9,106	9,324	21,734	12.7
Water Resources	2,793	4,039	4,949	8,111	12,465	14,524	19,892	11.6
Other	1,077	2,150	4,633	5,528	8,424	7,822	13,388	7.8
Public Agencies	13,280	19,122	29,027	38,876	63,429	64,897	100,305	58.4
Pemex	4,752	6,495	7,669	10,108	12,315	14,200	29,024	16.9
Federal Electricity Commission	2,797	3,395	4,630	5,662	8,446	10,100	16,484	9.6
Railways Companies	841	815	2,086	3,148	4,639	4,784	6,890	4.0
Other	4,890	8,417	14,642	19,958	38,029	35,813	47,907	27.9
Political Subdivisions (5)	2,473	3,981	4,707	5,135	5,421	5,400	16,296	9.5
Total Public Gross Fixed Investment	<u>22,559</u>	<u>34,715</u>	<u>49,838</u>	<u>64,503</u>	<u>98,845</u>	<u>101,967</u>	<u>171,615</u>	<u>100.0</u>

(1) Preliminary.

(2) Authorized.

(3) Preliminary Budget.

(4) Includes the following amounts expressed in millions of pesos for investment by the Program for Rural Development (PIDER), as follows: 669.3 pesos (1973), 847.0 pesos (1974), 2,550.0 pesos (1975 Budget), 2,100.0 pesos (1976 Budget).

(5) Includes Federal District and two Federal Territories from 1971-1975. In 1976 only Federal District.

Over the last 20 years, Mexico's economic development has been due primarily to its political and monetary stability and to the extent and nature of public and private investment. The basic objectives of the present Federal Government's policies are to consolidate this development and to reduce economic inequalities by continuing monetary and exchange stability; increasing investment in the economy to stimulate growth; encouraging greater domestic savings by the public and private sectors to make this growth self-sustaining; strengthening the external sector of the economy primarily by increasing exports of goods and services; applying modern technology to favor labor intensive methods of production, thereby improving employment opportunities; emphasizing decentralization and international competitiveness in industrial policy; and making more widespread use of modern methods in agriculture. In addition to the above policies, which in many cases will benefit the low-income majority, a new major program has been launched to accelerate investment in low-cost housing. These policies are described in greater detail under the appropriate headings herein.

Employment

Although there are no official statistics on employment or unemployment, according to mid-year population estimates, there were approximately 16.6 million persons economically active in 1975, of which 41.1% were engaged in agriculture, livestock-raising, forestry and fishing activities, 24.6% in industry and 34.3% in services.

In Mexico, as in most developing countries, a significant proportion of the population lives outside the market economy. The growth of the market economy has created new jobs but has not been sufficient to reduce unemployment and underemployment. The present administration is placing the highest priority on a number of programs, described herein, designed to deal with these problems. Examples are the fostering of such labor intensive activities as tourism and the use of labor intensive methods in manufacturing and construction, including housing and rural feeder roads.

The new Federal Labor Law provides a variety of benefits for workers, including the supplying of housing by employers, severance compensation on voluntary retirement and profit-sharing rights.

The latest annual determination of regional minimum wages by the National Commission of Minimum Wages, consisting of government, labor and management representatives, increased the minimum wages by 22% in all regions effective October 1974, 16% effective August 1975 and 24% effective January 1976.

Price Levels

The following table shows annual percentage changes in the wholesale price index for Mexico City and the recently established consumer price indices for Mexico City and for the country as a whole during recent years.

PERCENTAGE CHANGES IN PRICE INDICES (1)

	Mexico City Wholesale Index (Base 1954)	Mexico City Consumer Index (Base 1968)	National Consumer Index (Base 1968)
1951	24.0%		
1952	3.7		
1953	-1.9		
1954	9.4		
1955	13.6		
1956	4.7		
1957	4.3		
1958	4.4		
1959	1.2		
1960	5.0		
1961	0.9		
1962	1.8		
1963	0.6		
1964	4.2		
1965	1.9		
1966	1.3		
1967	2.9		
1968	1.9		
1969	2.6	3.9%	3.5%
1970	6.0	5.1	5.0
1971	3.7	5.7	5.4
1972	2.8	5.1	5.0
1973	15.7	11.2	12.1
1974	22.5	22.5	23.7
1975(2)	10.5	16.9	15.0

(1) The computation of these figures involves dividing the average of the relevant index for all the months included in each period by the corresponding average for the immediately preceding period of similar length.

(2) Preliminary.

Internal prices grew at a slower rate in 1975 than in 1974. The success of the Government in reducing inflation while maintaining moderate economic growth results from a broad range of Government economic policies, including tax reforms, reorientation of Government expenditures and credit policies, monetary restraints and price controls.

The Wholesale Price Index increased on average 10.5% in 1975 as compared to 22.5% in 1974, due mainly to the behavior of consumer goods, whose average increase over the year was 11.3% (compared to 23.4% in 1974). Prices of producer goods, on the other hand, rose by 9.2% in 1975.

The National Consumer Price Index rose during 1975 by 15.0%, compared to 23.7% in 1974. Transportation costs led the price increase with 22.5%, compared to 36.9% during the previous year; the price of petroleum and its by-products rose 29.9% in 1975, as compared to 73.1% in 1974.

The Government has established maximum prices for certain essential consumer goods such as meat, milk, drugs, soap, some petroleum products, and lower-priced automobiles. A public agency, Compañia Nacional de Subsistencias Populares (Conasupo), guarantees minimum prices to producers of certain principal agricultural products and subsidizes the consumption of foodstuffs and certain other essential consumer goods by low income groups.

Agriculture and Livestock

Mexico's mountainous topography and relative scarcity of water combine to limit the area which may be cultivated to an estimated 31,970,000 hectares, or about 16% of its total area. In 1974, about 17,401,000 hectares were actually under cultivation, 24.6% more than in 1964, of which about 4,800,000 hectares were irrigated, an increase of 25.6% since 1964. Under Constitutional mandates to effect reforms of the rural land-tenure system, the Government has distributed during the last 59 years approximately 90,336,000 hectares for utilization in agriculture, breeding of livestock and forestry.

Increases in the amount of land under irrigation, increased use of fertilizers and improved technology have enabled Mexico to become largely self-sufficient in foodstuffs. In 1975, Mexico produced more than 82.6% of its total consumption of corn, wheat and beans. However, the continuing need for improvement in agricultural productivity is indicated by the fact that in 1974 the estimated 41.1% of the country's total employment engaged in agriculture, livestock-raising, forestry and fishing produced only 9.7% of Mexico's 1974 gross domestic product (before adjustment for banking services).

In order to improve agricultural productivity, the Government is continuing to expand the nation's irrigation system. During the present administration, 21 major irrigation projects were undertaken, some of which are still under construction. At December 31, 1975, these projects had already added 234,000 hectares to the irrigation system. This is an important Government program since the majority of the arable land is dependent upon irregular rainfall.

Expenditures of the Federal Government for irrigation amounted to 19,229 million pesos during the four years 1971-1974 and such expenditures were budgeted at 9,433 million pesos for 1975 and 11,526 million pesos for 1976.

The Government is also promoting the expansion of domestic fertilizer production, which, in 1975, was estimated at 2,254,000 tons. One of the principal projects in this program is a new fertilizer plant scheduled to commence production in May 1977, with a planned daily capacity of 1,200 metric tons.

As part of its efforts to achieve a better distribution of the benefits of economic growth, the Government is placing major emphasis on expanding other agricultural development programs geared primarily to the small, poor farmer, such as construction of access roads, technical assistance, seed improvement, provision of fertilizers and insecticides, supervised credit, increased local processing of farm goods, and improved marketing facilities.

Agricultural products, including sugar, syrup and livestock, contribute significantly to Mexico's external trade; in 1974, they amounted to 32.1% of the value of total exports, and to 28.5% in 1975. Approximately 74% of the cotton and 64% of the coffee produced in the 1974-1975 harvest were exported. The decline of exports of agricultural products was mainly related to the U.S. recession, as about two-thirds of Mexico's external trade is with that country.

The following table sets forth certain statistics relating to the trend of agricultural production in recent years.

AGRICULTURAL PRODUCTION
(thousands of tons)
1970 = 100

	1970	1971	1972	1973	1974(1)	1975(2)
Index of Agricultural Production	100	96.1	93.9	94.3	95.5	97.5
Index of Population	100	103.4	107.0	110.7	114.6	118.6
Corn	8,879	9,786	9,223	8,355	7,784	9,400
Cotton	334	397	416	392	498	210
Wheat	2,676	1,831	1,809	2,091	2,764	2,750
Coffee	185	188	203	204	208	215
Sugar Cane	34,651	32,711	32,252	32,853	33,301	32,368
Beans	925	921	869	1,009	896	1,150
Rice	405	369	375	451	489	773

(1) Preliminary.

(2) Estimated.

The Government's policy on agriculture has been and will continue to be one of high national priority. In 1975, 19,068 million pesos were authorized as federal public investment in the agricultural sector; this represents an increase of 60.8% over the 11,855 million pesos invested by the Government in 1974. The 1976 federal budget for investment in the agricultural sector is 21,191 million pesos.

Manufacturing

The industrial development of Mexico has been marked by a rapid growth in manufacturing, evidenced by increased output, greater integration of processes and wider diversification of products. This growth, which is further evidenced by the 35.0% increase from 1971 to 1975 in the index of industrial production, was stimulated by Government policies emphasizing the development of the economic infrastructure and encouraging the use of Mexican raw material resources, the substitution of domestically manufactured consumer goods for imported products, and the exportation of industrial goods.

However, industrial development was also characterized by heavy concentration in the Mexico City Metropolitan area. In order to rationalize industrial development, major new programs have been launched which aim at decentralizing Mexico's urban development by providing infrastructure for industrial parks and special tax incentives and credit facilities to stimulate the utilization of such infrastructure. The regional decentralization policies are being strengthened, according to administration guidelines, by ensuring the availability of housing as well as other urban services and facilities to attract the work force at all levels to the new urban concentrations. For example, major developments are being carried out in the City of Queretaro and in various industrial parks of the State of Mexico. Industrialization is being stimulated in the areas bordering the United States, and producers are encouraged to supply the domestic market from such areas and to process semi-finished products brought from the United States for re-export to that country.

To improve Mexico's international competitiveness, import substituting activities are now being treated more selectively than was the case in the past, and most of the major stimuli to manufacturing are being directed toward export-oriented products.

In order to make the country self-sufficient in steel, the Mexican steel industry plans to increase steel making capacity from the present level of approximately 5,900,000 metric tons per year to 14,700,000 metric tons per year by 1980. As part of this program, the Las Truchas steel complex is being developed in the State of Michoacan. The steel project of Las Truchas is divided into two stages. The first stage, scheduled for completion in 1976 and representing a \$1,031 million investment, will produce 1.3 million metric tons of steel per year. The second stage should be completed by 1982 and is designed to increase the plant's total productive capacity by an additional 2.35 million metric tons of steel per year. The second stage will require an investment of approximately \$3,300 million.

The automotive industry produced 356,549 automobiles, trucks and buses during 1975. The construction industry volume index (1970=100), rose from 97.4 in 1971 to 143.1 in 1975.

The following table shows the net value of manufacturing output in recent years.

VALUE ADDED IN MANUFACTURING (1)					
(millions of pesos at constant 1960 prices)					
Industry Branch	1970	1971	1972	1973	1974(2)
Food, beverages and tobacco	19,644	19,849	20,933	21,966	22,786
Textiles, garments and leather	11,397	12,115	13,007	14,150	14,555
Wood and paper products	5,110	4,864	5,271	5,604	6,042
Chemical products	9,128	10,064	11,429	12,524	12,889
Non-metallic mineral manufactures	2,964	3,220	3,590	4,174	4,298
Metallic manufactures	4,636	4,762	5,350	5,786	6,445
Manufacture of machinery	5,995	5,998	6,406	7,169	7,496
Manufacture of transportation equipment	4,629	4,936	5,427	6,422	7,695
Other manufacturing industries	4,177	3,937	4,111	4,460	4,527
Total	<u>67,680</u>	<u>69,745</u>	<u>75,524</u>	<u>82,255</u>	<u>86,733</u>

(1) Value of output minus purchases from other producing activities.

(2) Preliminary.

Petroleum and Related Products

Under the Constitution and Federal law the Mexican petroleum and natural gas industry including exploration, refining, distribution, and the manufacture and first-stage sale of basic

petrochemicals and certain other derivatives, are entrusted solely to Petróleos Mexicanos (Pemex), a public agency employing 86,190 persons as of December 31, 1975.

Petroleum and natural gas supply approximately 91% of Mexico's primary energy requirements, including those needed for the production of approximately 55% of the electric output of the nation. Pemex is producing more than 95% of the country's total petroleum and natural gas requirements.

At the end of 1975, Mexico had proven petroleum reserves of approximately 4.0 billion barrels, sufficient to sustain production of crude oil and condensate at 1975 levels for 14 years. Proven reserves are defined as known petroleum deposits which can be economically recovered with existing technology and operating methods at current levels of production costs and petroleum prices.

The outlook for petroleum supplies in Mexico has improved significantly with the discoveries in 1972 by Pemex of new fields in the Reforma area situated in the southeast on the coast of the Gulf of Mexico. Output of the Reforma area alone increased to 400,127 barrels per day at the end of 1975, an increase of 45.4% over its output at the end of 1974.

The table below sets forth Mexico's proven reserves of crude oil and natural gas liquids and natural gas from 1971 through 1975.

	TOTAL PROVEN RESERVES				
	December 31,				
	1971	1972	1973	1974	1975
Crude Oil and Natural Gas Liquids (thousands of barrels)	3,234,450	3,237,400	3,269,366	3,536,439	3,953,578
Natural Gas (millions of cubic meters)	310,613	304,462	306,150	316,722	337,641

It is the policy of the Government through Pemex to increase the rate of production in the south, particularly the Reforma area, to the highest sustainable rate consistent with current conventional practices, in order to make the maximum contribution to the current account of Mexico's balance of payments.

The following table shows the production statistics of main petroleum products.

	PETROLEUM PRODUCTION (thousands of cubic meters)				
	1971	1972	1973	1974	1975(1)
Natural Gas(2)	18,220	18,696	19,166	21,089	22,273
Liquid Petroleum Gas	2,170	2,444	2,731	2,932	2,992
Gasoline	8,367	8,948	9,275	10,407	10,720
Kerosene	2,357	2,406	2,673	2,999	2,900
Diesel Oil	4,801	5,557	6,067	7,986	8,805
Fuel Oil	7,305	8,324	8,338	9,890	10,405
Asphalt	1,419	1,352	1,223	751	654
Lubricants	309	350	288	425	471
Grease	8	10	11	13	10
Paraffin	83	85	96	106	88
Basic Petrochemicals(3)	1,939	2,254	2,650	2,978	3,635

(1) Preliminary.

(2) Millions of cubic meters.

(3) Thousands of tons.

During the 1960-1975 period, petroleum product consumption in Mexico rose at an average annual rate of 7.3%. Crude oil and natural gas exports amounted to \$393.7 million in 1975 compared with \$62.0 million in 1974. Petroleum imports (including derivatives) amounted to \$282.6 million in 1975 compared with \$421.8 million in 1974. The very rapid rate of growth in

production over the last few years has overtaken consumption, allowing the country to become a net exporter of petroleum and related products as demonstrated in the table below.

EXPORTS AND IMPORTS

(millions of dollars)

	1971	1972	1973	1974	1975
Exports					
Crude Oil	—	—	—	61.9	393.7
Natural Gas	3.7	1.5	0.3	0.1	—
Refined Products	26.9	21.8	28.2	62.0	25.4
Other Petroleum Products	—	0.1	0.6		
Petrochemicals	3.4	2.6	4.7	9.5	4.3
Total Exports	<u>34.0</u>	<u>26.0</u>	<u>33.8</u>	<u>133.5</u>	<u>423.4</u>
Imports					
Crude Oil	2.0	32.1	88.7	79.5	—
Natural Gas	—	—	—	—	—
Refined Products	62.2	58.7	185.5	271.9	225.6
Other Petroleum Products	6.9	13.1	7.9		
Petrochemicals	15.6	19.1	21.5	70.4	57.0
Total Imports	<u>86.7</u>	<u>123.0</u>	<u>303.6</u>	<u>421.8</u>	<u>282.6</u>
Net Exports (Imports)	(52.7)	(97.0)	(269.8)	(288.3)	140.8
Net Change Over Preceding Year	(47.9)	(44.3)	(172.8)	(18.5)	429.1

Although Mexico is not a member of OPEC and its total exports are presently smaller than those of the smallest OPEC members, Mexican officials have indicated that they intend to follow OPEC pricing policies.

Mining

Mexico has substantial and varied mineral resources. It is able to meet its industries' requirements of the most important mineral resources such as silver, sulphur, lead, zinc, copper, iron ore, bauxite, phosphates, ammonia and fluor.

Under Constitutional provisions relating to ownership of subsurface resources, mining may only be carried on by the Government or by private enterprise under limited concessions. At present, 96% of Mexico's mining activities are controlled by the Government or by private Mexican enterprise.

The mining enterprises, either privately or with government participation, have initiated a series of projects with total investment expected to amount to 13 billion pesos during the 1974-1976 period. Some of the more significant investments include: the copper projects of La Caridad and Lampazos in the State of Sonora; the iron mines of Peña Colorada in Colima; the expansion of installations of the Compañía Minera de Cananea in order to increase its output of blister copper; the restructuring of the Compañía Minera de Autlán to augment the production of manganese nodules and ferro-manganese; the overhaul of the silver mine of Las Torres, in Guanajuato; the opening of new gold, silver, lead and zinc mines in Taxco, Sombrerete, Cuencame and Hermosillo; and the expansion of the installations of Minera Frisco in San Francisco del Oro to increase the production of fluorite.

Electric Power

The Government has placed a high priority on the development of the electric power industry in Mexico and the utilization of the country's hydroelectric resources. Electric power

production increased from 15,763 million kwh in 1964 to 40,766 million kwh in 1974. At December 31, 1974, generating capacity was 9,647,000 kw. During 1974, 62.7% of Mexico's electric power came from fossil fuel plants and the balance was provided by hydro plants.

Under a Constitutional amendment of 1960, the generation, transmission and distribution of public electric power are reserved solely to the Nation, and no new concessions can be granted to private individuals or companies. Approximately 82.1% of electric generating capacity in 1974 was represented by facilities of public agencies; the remainder, predominantly captive plants, was represented by privately owned facilities. The bulk of the electric power sold to the public in Mexico is generated by the Federal Electricity Commission, a public agency established in 1937, which coordinates the Government's program to increase the supply of public power and had an installed capacity of 9,537,230 kw at December 31, 1975.

The electric power industry is engaged in a six-year expansion program designed to fill Mexico's rapidly growing requirements. Under this program it is planned to increase annual production to 50,000 million kwh by 1976. Special emphasis is being placed on providing electrification for rural areas. Mexico is developing a nuclear plant at Laguna Verde, in the state of Veracruz. The Laguna Verde nuclear plant will have two generating units of 674,000 kw each and will require a total investment of approximately 5,513 million pesos. The first unit is expected to be completed by 1979, and the second one by 1981. Electricity rate increases implemented at the end of 1973 and in August 1975 have enabled the Federal Electricity Commission to begin to strengthen its financial position substantially, increasing its ability to finance internally a higher proportion of the large investments contemplated in the next few years.

Transportation and Communications

The country's transportation network has been substantially enlarged and modernized in recent years. The following table provides certain statistics for motor vehicles, railroads, airlines and shipping for the years indicated.

TRANSPORTATION STATISTICS

	MOTOR VEHICLES			RAILROADS		AIRLINES	SHIPPING	
	Total Passenger Car Registrations (000)	Total Truck and Bus Registrations (000)	Gasoline Consumption (000,000 gal.)	Freight Ton-Miles(1) (000,000)	Passenger Miles (000,000)	Domestic and International Passenger Miles (000,000)	Coastal (000 Tons)	International (000 Tons)
1970	1,234	558	2,124	14,337	2,816	4,307	9,645	13,081
1971	1,342	595	2,276	14,435	2,709	5,163	10,653	14,197
1972	1,520	628	2,456	14,381	2,786	6,541	12,724	17,024
1973	1,767	682	2,727	16,443	2,520	7,429	13,070	22,117
1974	2,053	770	2,818	19,312	2,866	8,650	17,638	22,230

(1) Metric tons.

The railroad system, which carries an estimated 24% of all freight moved in Mexico, is operated through several public agencies, of which National Railways of Mexico is the most important. As of December 31, 1975, approximately 24,822 kilometers of track were in use.

The road network, in large part built and maintained by the Federal Government, totaled 187,000 kilometers as of December 31, 1975, of which 32.0% are paved roads and include 1,350 kilometers of toll expressways. The principal Mexican cities are served by domestic and interna-

tional airlines, and many smaller communities receive scheduled service from the domestic lines. The Federal Government operates the facilities at the principal seaports. As of December 31, 1975, the Mexican merchant marine totaled 1,184,905 tons, of which approximately 31% represented oceangoing vessels, principally tankers operated by Pemex.

Teléfonos de México, S.A., of which the Government holds majority control, serves 96% of all telephone subscribers in Mexico. At December 31, 1975 there were 2,844,871 telephones installed.

There are 658 commercial radio transmitters and 78 television stations in the country, all owned by Mexican investors and operating under Government licenses.

Tourism

Mexico's vacation attractions have drawn tourists from abroad in increasing numbers, with the exception of 1975. Approximately 3,312,000 foreigners visited the interior of Mexico in 1975 as compared to 3,362,000 in 1974, 3,226,000 in 1973 and 2,915,000 in 1972.

The importance of tourist expenditures in the economy is indicated by the fact that gross receipts from tourism and border trade averaged 42.2% of total foreign exchange receipts on current accounts in the years 1971 through 1973, and 34.9% and 36.8% in 1974 and 1975, respectively. Due to the proximity of the United States, most of the visitors are from that country and most of the receipts constitute dollar earnings.

The following table provides statistics relating to tourism and border trade for recent years.

TOURISM AND BORDER TRADE (1)

Period	No. of Tourists Visiting Interior (000)	Receipts			Expenditures by Mexicans Outside Mexico			Net Receipts from Tourism and Border Trade
		From Visits to Interior	From Border Trade	Total	Border Trade	Tourism	Total	
(millions of dollars)								
1970	2,259	415.0	878.9	1,293.9	585.0	169.7	754.7	539.2
1971	2,509	461.0	966.9	1,427.9	612.5	172.2	784.7	643.2
1972	2,915	562.6	1,057.0	1,619.6	649.3	220.4	869.7	749.9
1973	3,226	724.2	1,207.7	1,931.9	695.0	258.0	953.0	978.9
1974 (2)	3,362	842.0	1,372.9	2,214.9	819.2	334.8	1,154.0	1,060.9
1975 (2)	3,212	800.8	1,518.8	2,319.6	933.6	398.0	1,331.6	988.0

(1) Border trade includes expenditures of tourists crossing the border on 72-hour permits, purchases and sales of merchandise on a small scale and salaries and wages of individuals employed on the opposite side of the border from their place of residence, but excludes export and import transactions in commercial quantities.

(2) Preliminary.

The Mexican Government has started implementation of an overall plan for the geographical diversification of tourism and the development of new areas which have shown great potential, such as Cancún in the Yucatán Peninsula and Ixtapa-Zihuatanejo located northwest of Acapulco. See "Map of Mexico".

In the first stage of the Cancún project 650 million pesos were invested, including the proceeds of a \$21 million loan from the Inter-American Development Bank (IDB). The first stage has been completed and comprises services and infrastructure for a local population of approximately 17,500 and for the operation of 5,000 hotel rooms, condominiums, and residential housing, as well as an international airport. The estimated investment for the second stage of Cancún is 537.5 million pesos. The tourist project of Ixtapa-Zihuatanejo contemplates a 600 million pesos initial investment, partially funded by a \$22 million loan from the International Bank for Reconstruction and Development (World Bank). The two locations are being developed according to master plans which represent innovations in urban planning in Mexico. A principal objective will be to make it possible for the two developments to induce the growth of agricultural and other activities in the regions surrounding the new tourist areas, taking advantage of the demand generated by visitors and the growth of the local population.

Education, Welfare and Housing

In 1976, 34,396 million pesos, or 14.4% of the Federal Government budget, will be expended for education and related cultural activities, as compared to 9.7% (or 1,945 million pesos) expended in 1960. In addition there are substantial expenditures on education by state and local governments and decentralized Federal agencies. For example, in 1976 the decentralized agency in charge of Federal school construction has an authorized investment program of 3,550 million pesos. The percentage of illiteracy among individuals ten years of age and over decreased from 29.1% in 1960 to 17.3% as of June 30, 1975.

The Federal Government is carrying out a full program of educational reforms including the coordination and integration of educational planning at all levels and the elevation of the academic training of teachers. There were established in 1971 a National Council of Sciences and Technology to develop and strengthen basic research and technology at the professional teaching level and a College of Sciences and Humanities to bring up to date and develop teaching on the university level. The Government had also initiated a program for regional vocational schools offering courses in agricultural and industrial skills.

Public welfare has historically constituted one of the major tasks of the Mexican Government, which provides almost all the country's social security and welfare services. The official agencies concerned with matters of public health and social security are the Ministry of Health and Welfare, the Mexican Institute of Social Security, the State Employees Institute of Social Security and Services, the National Institute for Child Protection, and the Mexican Institute for Child Welfare. Other organizations attend to specific sectors, such as the armed forces.

The funds required to run the Mexican Institute of Social Security and the State Employees Institute of Social Security and Services are derived from regular contributions by workers and employers, in addition to contributions by the Federal Government. Institutions responsible for public health and social security other than these two organizations are assisted by transfers from the Federal Government. The budgeted expenditures and transfers for public health and social security for 1976 were 21,574 million pesos, or approximately 9.1% of the total budget of the Federal Government.

The social security institutes currently provide medical care and other social services for approximately one-fourth of the population. The Federal Government is emphasizing the extension of services to outlying population centers, and is seeking to achieve more effective coordination among the various agencies concerned with health and to organize a national system of health services.

The present administration has put into effect a number of measures to combat pollution. Investments have been made in sanitation works, drinking water systems, and other environmental measures that benefit primarily the rural population. A Federal law for the control and prevention of pollution was enacted in March 1971, and implementing regulations have been issued to control pollution from smoke and dust.

A number of specialized agencies and others have extended their social services to include the construction of low-priced dwellings for the particular sector under their protection. Recently the Government has given special attention to improving living conditions by means of low-cost housing construction and provision of different types of shelter and lodging for needy people.

On May 1, 1972, the Institute of the National Housing Fund for Wage-Earners (Infonavit) was established. The fund managed by Infonavit is formed by contributions from all employers equivalent to 5% of the salaries of all persons employed by them. Out of this fund, Infonavit is lending to wage-earners to enable them to acquire, in full, property and houses at very reasonable terms and interest rates. From its creation until December 31, 1975, Infonavit had spent approximately 7,725 million pesos for the construction of housing and for credits granted to workers.

In order to help solve the problems affecting the population in respect to size, structure, and dynamics, the General Population Law was enacted in December 1973. Family planning programs and educational services have been set up to help promote the orderly growth and development of the population. In addition, a national population council has been established to supervise the demographic planning of Mexico.

FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Trade

Foreign trade plays an important role in the economy of Mexico. In the five years 1971 through 1974, exports averaged 4.1% of Mexico's gross domestic product, and imports, which consist primarily of capital goods and raw materials, averaged 7.9%. In 1974, exports were \$2,850 million, an increase of 37.6% over 1973. Imports in 1974 reached a record level of \$6,057.0 million, an increase of 58.8% over the previous year, attributable to the insufficiency of internal production of goods to meet increased domestic demand and to higher prices of imports due to world inflation.

During 1975, exports of goods increased by 0.3% and imports grew by 8.6% over 1974. The two most important product groups influencing the increase in the dollar amount of imports during this recent period were agricultural products, food and capital goods.

In 1975 Mexico's agricultural imports consisted primarily of corn, wheat and powdered milk (wheat was imported only during the first quarter). Although Mexico's agricultural import pattern historically has been cyclical, recent increases have been unprecedented. Increasing domestic demand for agricultural products, coupled with the inability of domestic production to meet the demand for certain products, has resulted in a significant increase in imports. Unusually adverse weather conditions also contributed to this surge of imports. Despite these increases in imports, Mexico remains a net exporter of agricultural products.

Among the various groups of export products, the most important has been manufactured goods, the export of which has increased at a compound annual rate of 21.9% during 1971-1975. The share of manufactured goods in Mexico's exports has increased from 40.1% in 1971 to 42.0% in 1975.

To stimulate the export of manufactured goods, the Mexican Government has sponsored several programs, of which the following are particularly important: an export finance fund, an export credit insurance company, a fund for the establishment and expansion of firms producing for export, and a system of tax rebates for exporters.

The following table sets forth the balance of trade for recent years.

BALANCE OF TRADE (1)

<u>Year</u>	<u>Exports (f.o.b.) (3)</u>	<u>Imports (c.i.f.)</u>	<u>Balance of trade</u>	<u>Exports as a Percentage of Imports</u>
		(millions of dollars)		
1970	\$1,281.3	\$2,326.8	\$-1,045.5	55.1%
1971	1,363.4	2,254.0	-890.6	60.5
1972	1,665.3	2,717.9	-1,052.6	61.3
1973	2,070.5	3,813.4	-1,742.9	54.3
1974	2,850.0	6,056.7	-3,206.7	47.1
1975 (2)	2,858.6	6,580.2	-3,721.6	43.4

- (1) Excluding amounts attributable to border trade and exports of silver, and excluding the operation of in-bond industries.
- (2) Preliminary.
- (3) Reference is made to Note (2) to the table Exports and Imports by Major Commodity Groups herein for information as to certain adjustments made in determining the value of Mexico's exports.

The following table sets forth exports and imports by major commodity groups in recent years.

EXPORTS AND IMPORTS BY MAJOR COMMODITY GROUPS (1)

EXPORTS (F.O.B.) (2)

	1970	1971	1972	1973	1974 (3)	1975 (3)(4)	As a percentage of total exports	
							1971	1975 (3)
	(millions of dollars)							
Agricultural Products	\$ 422.0	\$ 429.6	\$ 509.7	\$ 625.2	\$ 616.7	\$ 595.7	31.4%	20.8%
Cotton	123.7	120.1	147.9	166.0	181.9	173.7	8.8	6.1
Coffee	86.7	81.1	85.8	157.0	154.2	189.2	5.9	6.4
Tomatoes	177.7	90.0	99.1	127.1	94.4	103.7	6.6	3.6
Melon, oranges and watermelon	15.5	16.9	16.3	16.6	16.4	n.a.	1.2	—
Corn, wheat and beans	2.4	19.1	31.3	7.4	0.2	0.5	1.4	—
Other	86.6	102.4	129.3	151.1	169.6	133.6	7.5	4.7
Livestock, meat and poultry	131.3	125.8	188.6	166.3	106.3	55.9	9.2	2.0
Livestock	79.2	74.7	116.7	91.2	56.4	24.6	5.5	0.9
Fresh meat	42.4	42.4	56.5	49.9	24.8	10.6	3.1	0.4
Other	9.7	8.7	15.4	25.2	25.1	20.7	0.6	0.7
Fish	67.8	75.2	88.1	112.1	127.9	120.3	5.5	4.2
Shrimp	62.9	69.1	78.3	100.6	116.5	120.3	5.1	4.2
Other	4.9	6.1	9.8	11.5	11.4	n.a.	0.4	—
Minerals	216.2	187.9	201.9	207.2	499.2	737.3	13.8	25.8
Zinc (ore and metal)	57.4	31.3	37.4	27.6	129.2	87.0	2.3	3.0
Lead (metal)	26.0	19.4	20.7	22.8	63.3	45.7	1.4	1.6
Fluorite	23.9	42.0	41.3	38.2	48.5	49.4	3.1	1.7
Sulphur	16.4	15.8	10.9	18.0	42.6	44.4	1.2	1.6
Petroleum and natural gas ...	38.4	31.3	21.1	21.0	81.4	435.0	2.3	15.2
Other	54.1	48.1	70.5	79.6	134.2	75.8	3.5	2.7
Manufactured Goods	444.0	544.9	677.0	959.7	1,499.9	1,201.8	40.1	42.0
Sugar and syrup	97.5	102.5	113.0	122.7	192.1	162.2	7.5	5.7
Henequen yarn and other tex- tiles	38.3	50.8	77.7	167.7	267.9	141.1	3.7	4.9
Iron and steel products	37.1	61.2	72.7	43.0	83.2	38.1	4.5	1.3
Processed fruits and vegetables	34.9	32.5	45.2	67.3	82.2	51.5	2.4	1.8
Transportation machinery and equipment	36.6	51.4	82.2	152.8	170.0	269.8	3.8	9.5
Chemicals	87.4	90.0	102.4	152.3	261.1	204.2	6.6	7.1
Radios and T.V. sets	3.3	6.4	7.6	5.0	14.3	4.0	0.5	0.1
Paper products	19.9	16.1	22.8	31.9	32.3	23.0	1.2	0.8
Glass products	8.5	13.3	18.3	21.6	26.2	25.9	1.0	0.9
Other	86.5	120.7	135.1	195.4	370.6	282.0	8.9	9.9
Unclassified products	—	—	—	—	—	147.6	—	5.2
Total Exports	\$1,281.3	\$1,363.4	\$1,665.3	\$2,070.5	\$2,850.0	\$2,858.6	100.0%	100.0%

EXPORTS AND IMPORTS BY MAJOR COMMODITY GROUPS (1)—Continued
IMPORTS (C.I.F.)

	1970	1971	1972	1973	1974 (3)	1975 (3)(4)	As a percentage of total imports	
							1971	1975 (3)
(millions of dollars)								
Consumer Goods	\$ 463.3	\$ 442.7	\$ 608.2	851.0	1,314.1	719.3	19.6	10.9
Food and beverages	115.4	85.2	162.5	322.0	273.5	467.6	3.8	7.1
Automobiles and parts	181.9	199.1	225.5	277.0	399.4	137.7	8.8	2.1
Other consumer goods	166.0	158.4	220.2	252.0	641.2	114.0	7.0	1.7
Producer Goods	1,863.5	1,811.3	2,109.7	2,962.4	4,742.6	5,174.5	80.4	78.7
Raw and semi-finished materials	780.6	796.2	918.2	1,413.8	2,508.5	2,321.6	35.3	35.3
Textile fibers	13.7	12.7	9.5	11.2	12.5	10.2	0.6	0.2
Chemicals and chemical products	142.5	171.3	212.3	259.0	492.2	697.1	7.6	10.5
Fertilizers	6.6	10.7	13.9	13.5	23.2	75.8	0.5	1.2
Pulp and newsprint	35.9	22.0	23.9	65.4	182.7	157.9	1.0	2.4
Iron and steel products	56.2	38.4	41.0	107.1	250.8	102.8	1.7	1.6
Petroleum products	44.1	71.3	100.6	246.7	368.2	291.1	3.2	4.4
Other raw and semi-finished ma- terials	481.6	469.8	517.0	710.9	1,178.9	986.7	20.7	15.0
Capital Goods	1,082.9	1,015.1	1,191.5	1,548.6	2,234.1	2,852.9	45.1	43.4
Agricultural equipment	29.9	23.7	26.1	26.1	58.5	N.A.	1.1	—
Construction equipment	46.7	40.4	61.4	95.4	123.6	119.8	1.8	1.8
Railroad materials	51.8	12.8	18.3	19.2	51.6	217.8	0.6	3.3
Electrical equipment	58.7	51.0	74.0	100.7	98.6	361.7	2.3	5.5
Transportation and communications equipment	184.3	143.9	155.6	217.8	361.3	508.2	6.4	7.7
Other capital goods	711.5	743.3	856.1	1,089.4	1,540.5	1,645.4	32.9	25.1
Unclassified products	—	—	—	—	—	686.4	—	10.4
Total Imports	<u>\$2,326.8</u>	<u>\$2,254.0</u>	<u>\$2,717.9</u>	<u>3,813.4</u>	<u>6,056.7</u>	<u>6,580.2</u>	<u>100.0%</u>	<u>100.0%</u>

- (1) Excluding amounts attributable to border trade and exports of silver and in-bond industries.
- (2) The export values of the items in this table are based on prices declared in export invoices, except that such values for certain items are adjusted to reflect the average prices reported in United States import statistics and the export value of cotton is based on the quotations for Mexican cotton in the Liverpool market, after deducting freight and other transportation charges. The effect of such adjustments was to increase the amount of total exports in millions of dollars as follows: \$196.7 (1970); \$183.2 (1971); \$243.5 (1972); \$249.3 (1973); \$184.8 (1974) and \$143.3 (1975).
- (3) Preliminary.
- (4) The data for 1975 cannot be compared to other years for certain items because of the new tariffs for imports and exports.

The United States is Mexico's most important trading partner. According to preliminary figures in 1975, trade with the United States, excluding border trade and exports of gold and silver, accounted for 57.0% and 62.5% of total exports and imports, respectively. It is the Government's policy to diversify Mexico's trade outlets.

According to figures published by the United States Department of Commerce, in 1974 Mexico was the fourth most important customer of the United States, taking about 4.9% of the United States exports in that year. In 1974, Mexico was the fifth most important supplier to the United States, supplying about 3.3% of United States imports. The United States import statistics on which these calculations are based largely exclude border trade.

Balance of International Payments

As measured by increases in international monetary reserves, Mexico has had overall balance of payments surpluses in every year since 1962 except 1965. This has resulted from capital inflows, principally a result of external borrowings, offsetting annual deficits on current account.

During the past five years, imports and payments abroad for purchases of goods and services grew at an annual compound rate of 20.7%, while the rate of increase in exports of goods and services was 16.5%. The current account deficit increased, reaching \$3,643.4 million in 1975. According to preliminary data for 1975, exports of petroleum products and of certain agricultural products registered substantial increases. However, due principally to the U.S. recession, the rate of growth in tourism and the exports of manufactured goods slowed down in relation to 1974. During 1975, the rate of increase of imports of goods (8.6%) was smaller than in 1974 (58.8%).

These current account deficits have been financed by substantial increases in foreign borrowings and by continued inflows of private capital for direct investment. The administration is giving high priority to strengthening the balance of payments current account. As indicated elsewhere herein, major efforts are being made to decrease imports of agricultural commodities, and the adverse impact of petroleum products on the balance of trade has already been reversed. In addition, the Government is attaching priority to continued expansion of tourist facilities and a variety of measures to increase the export of manufactured goods. These factors are expected to result in an improvement in the balance of trade.

The Government attaches great importance to its international credit standing and, if necessary, intends to take whatever steps are required to maintain its ability to borrow to finance its current account deficit.

The following table shows the principal items of the balance of payments of Mexico in recent years.

BALANCE OF PAYMENTS						
	1970	1971	1972	1973	1974(1)	1975(1)
	(millions of dollars)					
I CURRENT ACCOUNT						
(a) Credits						
1. Exports (f.o.b.) (2)	\$ 1,281.3	\$ 1,363.4	\$ 1,665.3	\$ 2,070.5	\$ 2,850.0	\$ 2,858.6
2. Production of Silver	66.4	46.9	51.1	69.8	148.9	140.1
3. Tourism	415.0	461.0	562.6	724.2	842.0	800.8
4. Passenger Fares	39.3	47.3	59.5	63.4	78.1	88.7
5. Border Trade	878.9	966.9	1,057.0	1,207.7	1,372.9	1,518.8
6. In-bond Industries(3)	80.9	101.9	164.7	277.6	443.5	445.9
7. Other	171.3	179.7	240.4	415.2	607.1	450.3
Total Credits	2,933.1	3,167.1	3,800.6	4,828.4	6,342.5	6,303.3
(b) Debits						
1. Imports (c.i.f.) (4)	2,326.8	2,254.0	2,717.9	3,813.4	6,056.7	6,580.2
2. Tourism	169.7	172.2	220.4	258.0	334.8	398.0
3. Passenger Fares	53.9	54.3	65.7	72.6	96.8	134.1
4. Border Trade	585.0	612.5	649.3	695.0	819.2	933.6
5. Payments on Direct Foreign Investments	357.5	383.0	451.5	528.4	633.7	699.0
6. Interest	229.2	236.8	261.8	378.5	588.5	778.8
7. Other(5)	156.9	180.7	195.5	257.9	370.9	423.0
Total Debits	3,879.0	3,893.5	4,562.1	6,003.8	8,900.6	9,946.7
Deficit on Current Account	-945.9	-726.4	-761.5	-1,175.4	-2,558.1	-3,643.4
II IMF SPECIAL DRAWING RIGHTS (Allocations)						
	45.4	39.6	39.2	—	—	—
III LONG-TERM CAPITAL ACCOUNT						
1. Direct Foreign Investment	200.7	196.1	189.8	286.9	362.2	362.3
2. Purchase of Foreign Enterprises	—	—	-10.0	-22.2	-2.1	-25.8
3. Net Transactions in Securities(6)	-7.2	52.0	6.2	-10.3	-59.8	136.8
4. Bank and Other Direct Loans to Official Entities and Private Sector Borrowers(7)						
(a) Public Sector (Net)						
(i) New Loans	799.0	742.2	864.2	1,891.9	2,233.9	3,157.1
(ii) Amortization	-535.9	-455.8	-504.5	-345.3	-561.0	-688.1
New Loans Net	263.1	286.4	359.7	1,046.6	1,672.9	2,469.0
(b) Private Sector (Net)	61.1	164.2	186.3	324.1	326.3	483.3
Total New Loans (Net)	324.2	450.6	546.0	1,370.7	1,999.2	2,952.3
5. Net Changes in Direct Government External Debt(8)	- 2.3	-28.9	37.8	69.9	470.9	460.0
6. Mexican Credits granted	-11.5	-0.7	-16.3	-18.9	-39.5	4.9
Surplus on Long-Term Capital Account	503.9	669.1	753.5	1,676.1	2,730.8	3,890.5
IV ERRORS AND OMISSIONS, AND SHORT-TERM CAPITAL ACCOUNT (NET)						
	498.7	217.7	233.5	-378.4	-135.8	-82.0
V CHANGE IN FOREIGN EXCHANGE RESERVES OF THE BANK OF MEXICO (Sum of I, II, III and IV)						
	\$ 102.1	\$ 200.0	\$ 264.7	\$ 122.3	\$ 36.9	\$ 165.1

- (1) Preliminary.
- (2) Excludes exports by in-bond industries.
- (3) Includes only the value added by domestic input.
- (4) Excludes imports by in-bond industries.
- (5) Includes net imports of gold.
- (6) Principally bonds issued by public agencies.

(Notes continued on following page)

(NOTES—continued)

- (7) Excludes direct borrowing by the Federal Government and includes loans to all other public sector entities, except borrowings evidenced by securities which are recorded under "Net Transactions in Securities".
- (8) Includes all direct Federal Government borrowings, whether or not evidenced by securities.

FOREIGN EXCHANGE AND RESERVES

Foreign Exchange Rates and Exchange Control

The unit of Mexican currency is the peso. In April 1954, Mexico, as a member of the International Monetary Fund (IMF), established the value of the peso at 0.0710937 grams of fine gold, with a parity of 12.50 pesos to the U.S. dollar. Since such date, the rate for the U.S. dollar in Mexico has been allowed to fluctuate between 12.49 pesos and 12.51 pesos to the dollar (the official buying and selling rates). Since 1940, the peso has been devalued twice against the U.S. dollar, the first time on June 18, 1949, when the rate of exchange was changed from 4.85 to 8.65 pesos to the U.S. dollar, and the second time on April 19, 1954, when such rate was changed from 8.65 to 12.50 pesos to the U.S. dollar.

Following the Smithsonian Agreement of December 1971 on central rates of exchange and the adoption on May 8, 1972 of a new gold parity of the U.S. dollar, the par value of the Mexican peso became 0.0654810 grams of fine gold. With the adoption of a new gold parity for the U.S. dollar on October 18, 1973, Mexico informed the IMF of its decision to maintain the rate of exchange of the peso to the dollar. Consequently, the value of the peso became 0.0589330 grams of fine gold.

Mexico maintains the free convertibility of its currency and does not impose restrictions on the movement of capital or other international payments. Mexico permits a free internal market in gold, although the right to export gold is reserved exclusively to the Bank of Mexico, the central bank. The Government has encouraged the inflow of external capital for development purposes within Mexico's capacity to service such obligations. Mexico has been a nation with Article VIII status under the Articles of Agreement of the IMF since November 12, 1946. Article VIII stipulates, among other things, that no member shall, without approval of the IMF, impose restrictions on the making of payments or transfers for current international transactions.

Gold and Foreign Exchange Reserves

The following table indicates the gold and foreign exchange holdings of the Bank of Mexico at certain dates from December 31, 1970 to December 31, 1975.

INTERNATIONAL RESERVES OF BANK OF MEXICO

<u>December 31</u>	<u>Gold(1) (2)</u>	<u>Foreign Exchange(3)</u>	<u>IMF Special Drawing Rights</u>	<u>Silver</u>	<u>Total Gross Reserves</u>
	(millions of dollars)				
1970	\$311.3	\$394.1	\$ 47.8	\$66.9	\$ 820.1
1971	281.1	565.0	88.3	85.6	1,020.0
1972	293.7	756.0	138.7	96.3	1,284.7
1973	313.9	909.6	154.2	29.2	1,407.0
1974	272.8	986.7	157.9	26.5	1,443.9
1975	272.6	1,214.2	100.9	21.2	1,608.9

(1) Includes gold portion of subscription to IMF. All gold valued at \$35.00 per troy ounce in 1971, at \$38.00 in 1972 and at \$42.22 from 1973 to 1975.

(2) Includes currency transactions made by IMF with Mexican pesos to support other member currencies.

(3) Of this amount over 90% was United States dollars.

Preliminary figures indicate that at December 31, 1975 foreign exchange assets of the banking system (other than the Bank of Mexico) were equivalent to 95,550.3 million pesos and that foreign exchange liabilities of these institutions at such date were equivalent to 114,784.7 million pesos.

On January 1, 1970, the first allocation of Special Drawing Rights or SDRs (a liquid international reserve asset or drawing facility, which is allocated and maintained under the authority of the IMF and which is used as a means of obtaining foreign exchange) was made by the IMF. Mexico has received 124.2 million in allocations of SDRs to date. Mexico has granted 37.9 million SDRs in exchange for other currencies which have been used by Mexico, reducing Mexico's total holdings to 86.3 million SDRs as of December 31, 1975.

Mexico is one of the founding members of the IMF. Mexico's present quota as of December 31, 1975 in the IMF is equal to 370 million SDRs, which has been fully subscribed: 92.5 million SDRs in gold and 277.5 million SDRs in pesos. Since 1941, Mexico has maintained an exchange stabilization agreement with the United States Treasury, which was increased on December 27, 1973, from \$100 million to \$200 million and at January 1, 1976 to \$300 million. In addition, the Bank of Mexico signed a swap agreement on August 29, 1975, with the United States Federal Reserve Board for \$360 million which agreement was for twice the amount of a similar agreement theretofore in effect and is similar to others in force between the Federal Reserve and the central banks of 13 other major industrial nations and the Bank for International Settlements. The agreements with the United States Treasury and Federal Reserve provide currency exchange facilities available for both countries.

In addition to the international reserves shown in the preceding table, Mexico has additional drawing rights from the IMF (which are subject to various conditions on availability under IMF rules) representing 370 million SDRs under normal drawing right facilities, and the possibility of increasing such drawing facilities to approximately 610.5 million SDRs under its extended fund facilities. Since 1965, the IMF has been using Mexican pesos in operations to support the currencies of other member countries. By virtue of agreements reached in January 1976, Mexico's normal drawing rights of 370 million SDRs will increase 45% (166.5 million SDRs) in the near future.

Subscriptions to International Financial Institutions

Mexico's contribution to the capital of the World Bank is 228,000,000 SDRs, all of which have been fully subscribed. 22.8 million SDRs had been paid in as of December 31, 1975, and the balance of such subscription is callable only if required by the Bank to meet obligations of the Bank for funds borrowed or loans guaranteed by it, and is payable at the option of Mexico in gold, in United States dollars or in the currency required to discharge the obligation for which the call is made. As of December 31, 1975, the World Bank had authorized loans to Mexico totalling \$2,197.7 million of which \$1,423.3 million had been disbursed and \$1,121.8 million remained outstanding.

Mexico has paid in full its subscription of 8.74 million SDRs to the capital of the International Development Association and its subscription of \$720,000 to the capital of the International Finance Corporation (IFC), both of which are affiliates of the World Bank. As of December 31, 1975, the IFC had granted credits and made investments in Mexico totaling \$69.9 million, of which \$33.3 million was outstanding on that date.

Mexico's subscription to the Ordinary Capital of the Inter-American Development Bank (IDB) was, as of December 31, 1975, \$456,359,647, one of the largest subscriptions of the Bank's Latin-American members. Of such subscription, \$79,980,557 has been paid in cash, and the balance is callable if required to meet the Bank's obligations. As of December 31, 1975, Mexico's contribution to the Bank's Fund for Special Operations was \$159,094,000. As of the same date the IDB has authorized loans to Mexico totaling \$1,201.3 million, of which \$790.3 million had been disbursed and \$643.5 million remained outstanding.

FOREIGN INVESTMENT IN MEXICO

It is the policy of the Federal Government that the economic development of Mexico should be financed primarily from internally generated sources, external financing being used only to complement internal capital. Foreign direct investment is welcomed when it does not displace Mexican capital. To that end, preference is given to foreign investors that establish new industries, associated with Mexicans, which introduce new technologies and produce articles for export or in substitution for imports.

Investments by foreigners and the earnings thereon may be freely repatriated. Under Mexican laws foreign investors do not receive any special benefits or exemptions beyond those available to domestic investors, and certain constitutional, statutory and regulatory restrictions apply specifically to foreigners. These restrictions include prohibitions as to ownership of real property in zones along the country's land borders and seacoasts; requirements as to Mexican ownership of enterprises engaged in banking, news dissemination, transportation within Mexico, land settlement, and exploitation of forest and marine products; the reservation of the petroleum and basic petrochemical industry exclusively to Pemex, a public agency; and the establishment in most important activities of various percentages, ranging from 51% to 66%, of equity interest which Mexican citizens must hold depending on the activity.

In 1973 Mexico enacted a "Law to Promote Mexican Investment and Regulate Foreign Investment," which created for the first time in Mexico a registry of foreign investment, and a commission to regulate that investment. The law requires that foreign individuals and cor-

porations with equity investments in Mexico, Mexican companies with any foreign ownership, trusts with foreign beneficiaries established under the new law, and securities representing capital owned by or pledged on behalf of foreigners and any transfers thereof, register with the National Registry of Foreign Investments. Affected companies which do not register may not pay dividends, and affected shareholders failing to register may not receive them.

In 1975, new direct foreign investment (including intra-company items) was \$362.3 million compared with \$196.1 million in 1971.

Under legislation enacted in 1972 and effective in 1973, concerning the transfer of technology to, and the use of foreign patents and trademarks by, business enterprises in Mexico, no contracts would normally be approved which, among other things, provided for the transfer of technology already in Mexico, sought to impose controls over the management of the recipient company or over its exports, charged a price deemed to be unfair, or required the recipient company to buy equipment or raw materials from a specified source.

MONETARY SYSTEM AND BANKING

Bank of Mexico and Monetary Policy

The central bank and sole bank of issue is the Bank of Mexico (Banco de México, S.A.), which was chartered in 1925. Its functions are established by its Organic Law enacted by the Federal Congress in 1941, which provides that 51% of the Bank's outstanding shares of stock must be owned by the Federal Government. At December 31, 1975, the Bank of Mexico had total assets of 152,000 million pesos.

The Bank of Mexico is the Government's primary instrument for the execution of monetary policy and the regulation of currency and credit. The Bank is authorized by law to regulate directly interest rates payable on time deposits and minimum reserve percentages which banks and financieras (industrial development banks engaged in investment banking and commercial finance operations, in many cases affiliated with commercial banks) are required to maintain and to provide discount facilities for certain types of bank loans. Through these means, the Bank regulates loan operations and investments of banks and is instrumental in channeling financial resources into areas of the economy deemed to require particular encouragement.

Current monetary policy is designed: (1) to reduce inflationary pressures; (2) to increase bank resources; and (3) to reinforce agricultural output through the extension of credit. In order to reach these goals, the Bank of Mexico is empowered to increase the rate of reserve requirements by up to 100% on certain deposit liabilities. In addition, specialized credit institutions have been authorized to increase the rate of interest they pay on certain deposits, and new financial instruments have been created to attract savings. The monetary authorities have also allowed northern border branches of credit institutions to increase the rate of interest they pay on deposits of dollars and have encouraged rediscounting for certain operations.

In accordance with legal requirements the Bank of Mexico, in order to support the value of the peso, must maintain a monetary reserve equal to at least 25% of total currency in circulation and sight obligations of the Bank of Mexico, at least 80% of such reserve to consist of gold or foreign exchange and the remainder to be silver. At December 31, 1975, the ratio of the monetary reserves to currency in circulation and sight obligations was 33.4%, and 98.7% of the reserve consisted of gold, Special Drawing Rights and foreign exchange.

Money Supply

The following table sets forth the money supply at the dates indicated.

December 31	MONEY SUPPLY			
	(millions of pesos)			
	Total Money Supply	In Circulation		Checking Deposits
		Notes	Coin	
1970	49,013	18,487	1,657	28,869
1971	53,060	19,795	2,029	31,236
1972	64,328	24,458	2,320	37,550
1973	79,875	31,729	2,447	45,699
1974	97,474	39,874	2,812	54,788
1975(1)	118,190	48,842	3,451	65,897

(1) Preliminary.

Banking System

Private Financial Institutions. In the private sector, the country's banking system at December 31, 1975, included 108 commercial banks with total assets of 89,778 million pesos; 90 private financieras with total assets of 154,629 million pesos; 25 mortgage banks with total assets of 40,755 million pesos; and various specialized institutions (savings banks, capitalization banks and trust companies) with total assets of 33,226 million pesos.

In recent years there has been a substantial growth in the resources of the foregoing groups of institutions. Between December 31, 1965, and December 31, 1975, demand deposits increased from 18,115.6 million pesos to 72,341 million pesos, and the number of depositors increased from 786,354 to 1,346,931; savings deposits increased from 5,881.2 million pesos to 25,502.7 million pesos and the number of accounts increased from 5,068,722 to 15,608,324; borrowings of the financieras, obtained primarily from the public through loans and sales of bonds and certificates, showed a sizeable increase, from 21,895.6 million pesos to 149,539.7 million pesos; and mortgage bank loans outstanding rose from 5,657.2 million pesos to 39,124.4 million pesos.

Public Financial Institutions. In addition to the Bank of Mexico (and the private financial institutions described above), there are 22 national credit institutions which have been created by the Federal Government to assist or serve specific sectors of the Mexican economy. The total assets of these institutions amounted to 208,139 million pesos as of December 31, 1975. The majority of their capital is subscribed by the Federal Government or by public agencies (including other national credit institutions), and they operate under the supervision of the Ministry of Finance and Public Credit in accordance with specific statutes. The most important of the national credit institutions is Nacional Financiera. Other major national credit institutions are the National Bank of Public Works and Services, the National Foreign Trade Bank and the National Bank for Rural Credit.

The following table sets forth the peso equivalent of the outstanding obligations, at the respective dates indicated, of Nacional Financiera and the National Bank of Public Works and Services payable abroad or in external currencies.

	December 31,					
	1970	1971	1972	1973	1974	1975
			(millions of pesos) (1)			
External Bonds	1,166	1,492	1,904	1,803	1,609	1,787
External Credits(2)	20,496	22,034	25,238	33,651	47,396	64,895
Guarantees or Endorsements	9,869	10,174	10,236	10,917	16,229	18,144
Total	31,531	33,700	37,378	46,371	65,234	84,826

(1) Includes obligations reloaned to the Federal Government.

(2) Amounts shown include obligations with an original maturity of less than one year which amounted to 4,445 million pesos at December 31, 1974, and 5,889 million pesos at December 31, 1975.

For additional information on Nacional Financiera, see the forepart of this Prospectus.

The following table sets forth certain information as to the financing provided by the banking system as of the dates indicated, together with the classification of loans and investments.

BANKING SYSTEM—LOANS AND INVESTMENTS OUTSTANDING

	December 31,					
	1970	1971	1972	1973	1974	1975(1)
	(millions of pesos)					
Agriculture, mining, forestry and fishing	18,819.4	22,619.2	24,904.5	28,146.3	36,696.7	50,557.6
Energy	9,913.5	13,791.8	17,862.0	17,760.2	16,426.1	16,028.4
Industry	44,944.9	51,828.1	56,859.3	60,870.4	76,651.3	98,794.1
Services and other Activities ...	22,994.7	25,623.3	26,932.7	32,043.4	37,166.7	47,333.5
Commerce	20,340.5	25,300.9	27,420.4	27,859.9	35,767.2	42,053.8
Government (Federal, Local and Municipal)	13,087.2	14,822.6	19,485.2	25,815.8	29,460.8	35,759.6
Total	<u>130,100.2</u>	<u>153,985.9</u>	<u>173,464.1</u>	<u>192,496.0</u>	<u>232,168.8</u>	<u>290,527.0</u>

(1) Preliminary.

Securities Markets

The greater part of securities operations—mainly in fixed income securities—is conducted through the banking system. Securities transactions on the stock exchanges (in Mexico City, Monterrey and Guadalajara) have been of relatively minor importance.

Some types of private financial intermediaries as well as some of the national credit institutions issue fixed-income securities and place them directly with individuals and institutional investors. The Federal Government issues securities to meet financing requirements for its economic and social infrastructure projects, which are acquired by private credit institutions to comply with legal reserve requirement regulations or by the Bank of Mexico with funds deposited with it to meet cash reserve requirements.

As of December 31, 1975, the amount outstanding of fixed-income securities was 320,900 million pesos. Of this amount, 54.5% were government issues, 31.4% were private banking issues, 11.1% were public banking issues, and 3.0% were issues of private non-financial intermediaries.

The Mexican Congress enacted on December 29, 1974 a law with the objective of revitalizing the securities markets. The main features of this law seek to develop sources of equity and debt for new companies and an improved market for the securities of existing companies.

PUBLIC FINANCE

Prior to 1965, the revenues and expenditures of the public agencies of the Federal Government were accounted for outside the Federal budget and not reflected therein, except to the extent that the Government granted subsidies or capital contributions to, or received income from, such agencies. Under the Federal Revenue Laws since 1965, the budgets of most of the larger public agencies—principally Pemex, the Federal Electricity Commission, social security and other social welfare institutions, National Railways of Mexico, Federal Toll Roads and Bridges, and Aeroméxico (a Government-owned airline company)—are included as part of the budget of the Federal Government.

The combined budget for 1976 of the Federal Government and included public agencies authorizes expenditures of 439,643 million pesos. Of this amount, the Federal Government accounts for 238,043 million pesos and the public agencies for 201,600 million pesos.

Federal Government Revenues and Expenditures

The Federal Government's fiscal year is the calendar year. The expenditure budget of the Federal Government is prepared by the Ministry of Finance and Public Credit and prior to December 15 is presented by the President to the Chamber of Deputies for its approval.

The revenue bill, which is also presented by the President to the Chamber of Deputies, sets forth the revenues which the Federal Government estimates it will receive during the following year. Such bill, which must be enacted by both houses of Congress before December 31, becomes the annual Revenue Law, providing the necessary authority for collecting taxes and contracting loans; however, specific borrowings may also be authorized under special laws adopted by Congress.

The following table presents a summary of the revenues and expenditures of the Federal Government (excluding public agencies) for the year indicated.

SUMMARY OF REVENUES AND EXPENDITURES OF THE FEDERAL GOVERNMENT (1)

	(excluding public agencies)					
	1971	1972	1973	1974	1975 Budget	1976 Budget
	(millions of pesos)					
Current Revenues(2)	43,735	53,580	67,591	93,179	131,028	153,911
Current Expenditures:						
Direct Administrative Expense	14,151	18,000	23,313	29,670	41,281	54,867
Public Debt Interest and Expense .	4,884	5,390	6,614	10,980	13,690	20,159
Transfer Payments (consumer sub- sidies, social security payments, etc.)	13,691	18,993	26,172	39,690	42,180	53,179
Other Current Expenditures	291	168	261	340	6,385	4,822
Total Current Expenditures ...	33,017	42,551	56,360	80,680	103,536	133,027
Surplus on Current Account	10,718	11,029	11,231	12,499	27,492	20,884
Capital Revenues (excluding proceeds of loans)	786	673	1,605	898	900	900
Capital Expenditures	17,670	28,962	39,962	47,910	61,828	80,145
Deficit on Capital Account	(16,884)	(28,289)	(38,357)	(47,012)	(60,928)	(79,245)
Budgetary Surplus (Deficit)	(6,166)	(17,260)	(27,126)	(34,513)	(33,436)	(58,361)
Adjustment to cash basis:						
Add: Items in previous year budget payable in current year	—	—	—	—	9,556	14,000 (3)
Subtract: Items in current year budget payable in following year	—	—	—	—	(13,000) (3)	(16,000)
Deficit to finance	(6,166)	(17,260)	(27,126)	(34,513)	(29,992)	(56,361)
Gross borrowing:						
Internal	8,538	19,381	28,808	38,224		
External	1,787	2,953	4,874	8,781	(4)	(4)
Total	10,325	22,334	33,682	47,005	41,181	67,232
Amortization of debt:						
Internal	3,536	4,059	4,348	5,693	9,682	9,231
External	1,563	1,659	1,571	1,512	1,506	1,640
Total	5,099	5,718	5,919	7,205	11,188	10,871
Net borrowing(5)	5,226	16,616	27,763	39,300	29,993	56,361
Surplus or (Deficit) including net bor- rowing	(940)	(644)	637	5,287	1	—

(1) The accounts of the Federal Government are on a cash basis. The figures for the years 1971 through 1974 reflect the cash accounting for those years. The budgets for 1975 and 1976 are adjusted to a cash basis as indicated in the table.

Footnotes continued on following page

Footnotes continued from preceding page

- (2) Including taxes, distributed or distributable in part to the state governments as capital expenditure, as follows: 1,601 million pesos (1971); 1,776 million pesos (1972); 7,196 million pesos (1973); 10,934 million pesos (1974); 15,733 million pesos (1975); and 18,673 million pesos (1976).
- (3) Items do not agree because they were estimated at different times.
- (4) Details not shown in the annual Revenue Law.
- (5) Net borrowing in any year does not correspond to the increase in direct Federal Government debt in such year as indicated under Public Debt herein since it does not reflect, among others, transactions such as the assumption by the Government of debts previously incurred by public agencies and adjustments for changes in exchange rates.

The following tables present the revenues and expenditures of the Federal Government (excluding public agencies) for the year indicated.

REVENUES OF THE FEDERAL GOVERNMENT (1)
(excluding public agencies)

	70	1971	1972	1973	1974	1975 Budget	1976 Budget
	(millions of pesos)						
Current Revenues:							
Taxes on Income	15,478	16,858	21,010	26,093	36,409	46,200	55,970
Business Income	8,568	8,556	10,564	13,469	20,409		
Personal Income:							
Wages, Salaries and Profes- sional Income	4,808	5,617	6,695	8,134	11,338		
Investment Income	1,242	1,653	2,499	2,931	2,648	(3)	(3)
Accumulated Income	248	361	511	705	930		
Other	612	671	741	854	1,084		
Other Taxes	21,146	23,066	27,347	35,464	51,929	78,528	90,862
Excise Taxes	7,746	9,655	12,474	12,887	20,117	34,175	38,565
Commercial Receipts Tax	4,360	4,874	5,461	12,769	18,100	24,150	28,511
Import Duties	6,392	5,814	6,508	6,255	8,692	11,726	14,575
Export Duties	994	969	964	1,256	1,662	4,400	4,375
Stamp Tax	584	591	658	805	1,025	1,450	1,887
Other	1,070	1,163	1,282	1,492	2,340	2,327	2,949
Other Current Revenues	3,896	3,811	5,223	6,034	4,841	6,300	7,079
Total Current Revenues (2)	40,520	43,735	53,580	67,591	93,179	131,028	153,911
Capital Revenues:							
Capital Revenues (excluding pro- ceeds of loans)	824	786	673	1,005	898	900	900
Proceeds of Loans	10,725	10,325	22,334	33,682	47,005	41,181	67,232
Total Capital Revenues ...	11,549	11,111	23,007	35,287	47,903	42,081	68,132
TOTAL REVENUES(4).	52,069	54,846	76,587	102,878	141,082	173,109	222,043

- (1) The figures from 1971 to 1974 correspond to amounts actually received as they appear in the Public Account, whereas figures for 1975 and 1976 are those of the budget. Since 1972, the budget has included revenues from borrowing.
- (2) Includes the following amounts distributable to State governments: 1,601 million pesos (1971); 1,776 million pesos (1972); 7,196 million pesos (1973); 10,934 million pesos (1974); 15,733 million pesos (1975); and 18,673 million pesos (1976).
- (3) Details not shown in the annual Revenue Law.
- (4) Tax revenues of the Federal Government pledged to secure certain issues of internal public debt aggregated 4,512,943,000 pesos in 1974. Revenues derived from the 10% tax on railway gross receipts, a major portion of which secures the issues of external debt covered by the debt settlement Agreement of 1946, amounted to 383,309,043 pesos in 1974. In addition, certain issues of internal public debt were secured by the Government's dividends on its holdings of Bank of Mexico Series "A" stock, which dividends amounted to 159,406,990 pesos in 1974 and are included in Other Current Revenues shown above.

EXPENDITURES OF THE FEDERAL GOVERNMENT (1)
(excluding public agencies)

	1970	1971	1972	1973	1974	1975 Budget	1976 Budget
	(millions of pesos)						
Communications and Transportation	6,319	6,868	9,183	12,087	13,222	16,098	18,759
Railroads	2,185	2,427	2,593	2,849	3,670	4,022	5,658
Roads	2,054	2,318	4,024	5,791	5,562	5,785	4,253
Telegraph and Postal Services	856	983	1,206	1,268	1,466	1,804	2,230
Maritime Works	317	295	523	692	824	1,628	1,492
Airports	197	152	212	193	174	215	510
Other	710	693	625	1,294	1,526	2,644	4,607
Development and Conservation of Natural Resources	5,199	5,508	14,261	15,585	24,616	30,008	34,376
Irrigation	2,615	2,752	3,752	5,814	6,911	9,438	11,526
Other	2,584	2,756	10,509	9,771	17,705	20,570	22,850
Promotion, Development and Regulation of Agriculture, Commerce and Industry	10,454	10,015	12,535	18,829	22,347	24,886	35,616
Education and Culture	7,373	8,853	11,148	14,350	19,592	27,437	34,396
Pre-Primary and Primary Schools	3,374	3,664	4,305	5,166	6,687	9,128	11,698
Secondary and Vocational Schools	1,335	1,529	1,645	1,975	2,587	2,939	5,271
Universities, Technical Schools and Professional Schools	1,206	1,495	2,050	2,828	4,563	5,135	10,248
School Construction and Maintenance	759	1,478	1,973	2,697	3,170	4,565	5,073
Other	699	687	1,175	1,684	2,585	5,670	2,106
Hospital Services and Public Assistance	1,906	2,008	3,409	4,334	4,771	6,616	8,483
Health, Medical and Hospital Services	880	1,033	1,743	2,156	2,085	3,062	4,405
Hospital Construction	197	243	563	892	1,073	1,232	910
Other	829	732	1,103	1,286	1,613	2,322	3,168
Social Security	2,467	2,687	3,698	5,507	7,632	10,697	13,091
Government Contribution for Social Security	936	1,159	1,383	1,511	2,223	3,171	2,988
Other	1,531	1,528	2,315	3,996	5,409	7,526	10,103
National Defense	2,557	2,696	3,257	4,080	5,377	6,225	8,579
Military Pay	1,374	1,495	1,744	1,975	2,709	3,677	5,474
Purchase of Equipment	102	120	209	300	379	176	266
Other	1,081	1,081	1,304	1,805	2,289	2,372	2,839
General Administration	7,195	7,070	8,578	14,924	20,049	29,707	39,713
Public Debt Interest and Expenses	4,498	4,884	5,389	6,613	10,980	13,690	20,159
Unclassified	3	98	55	13	4	—	—
Total Expenditures (excluding retirement of public debt)	47,971	50,687	71,513	96,322	128,590	165,364	213,172
Retirement of Public Debt	4,685	5,099	5,718	5,919	7,205	20,744(2)	24,871(2)
Estimated Expenditures to be paid in Following Year	—	—	—	—	—	(13,000)	(16,000)
TOTAL EXPENDITURES	<u>52,656</u>	<u>55,786</u>	<u>77,231</u>	<u>102,241</u>	<u>135,795</u>	<u>186,108</u>	<u>238,043</u>

(1) The figures from 1971 to 1974 correspond to amounts actually spent as they appear in the Public Account, whereas figures for 1975 and 1976 are those of the budget. Since 1972, the budget has included outlays financed by borrowings.

(2) A portion of the amount stated represents debt incurred in the prior year, which when spent during the current year, will be apportioned among appropriated expenditure categories.

Receipts and expenditures of the public agencies for the years indicated are summarized below:

RECEIPTS AND EXPENDITURES OF PUBLIC AGENCIES (1)

	1970	1971	1972	1973	1974	1975 Budget	1976 Budget
Receipts:			(millions of pesos)				
Total Current Revenues including							
Social Security Tax	44,458	48,402	56,603	74,172	107,382	128,244	167,765
Gross Proceeds of Loans	12,514	17,273	15,218	28,562	33,107	32,306	33,835
TOTAL RECEIPTS	<u>56,972</u>	<u>65,675</u>	<u>71,821</u>	<u>102,734</u>	<u>140,489</u>	<u>160,550</u>	<u>201,600</u>
Expenditures by agency:							
Pemex	20,031	23,108	22,260	23,067	37,560	37,765	49,605
Electric Power Companies(2)	11,757	13,977	16,495	21,674	27,121	31,204	32,433
Railway Companies	4,421	5,072	5,034	5,989	7,278	11,659	13,237
Social Security Agencies	11,808	13,921	15,790	18,910	29,191	31,270	39,942
Other Social Welfare Agencies	2,870	3,042	4,711	4,117	4,612	4,537	5,388
Conasupo	3,744	4,350	4,661	7,143	12,360	16,343	22,555
Federal Toll Roads and Bridges ...	694	483	728	1,102	1,093	1,225	1,329
Aeroméxico	1,060	1,401	1,534	1,806	2,447	2,556	3,129
Airports and Auxiliary Services ...	196	190	323	321	619	665	827
Proformex	1	1	2	6	48	226	105
Mexican Coffee Institute(3)	—	—	—	1,099	1,893	2,174	4,012
Vicente Guerrero Forestry(3)	—	—	—	24	118	121	166
Guanos and Fertilizers of Mexico(3)	—	—	—	3,852	4,643	6,310	8,029
National Construction of Railway Coaches(3)	—	—	—	933	1,510	2,426	3,683
National Steel(3)	—	—	—	391	611	764	1,198
National Diesel(3)	—	—	—	2,865	3,891	4,585	7,677
Steel Mill Lázaro Cárdenas—Las Truchas(3)	—	—	—	382	1,168	2,007	2,353
Mexican Fishing Products(3)	—	—	—	3,111	4,526	4,453	5,442
Mexican Institute for Foreign Trade (IMCE)(4)	—	—	—	—	—	260	490
TOTAL EXPENDITURES	<u>56,582</u>	<u>65,500</u>	<u>71,538</u>	<u>101,792</u>	<u>140,689</u>	<u>160,550</u>	<u>201,600</u>

(1) The figures from 1971 to 1974 correspond to amounts actually spent as they appear in the Public Account; the figures for 1975 and 1976 are those of the budget.

(2) Includes Federal Electricity Commission.

(3) The expenditures of these agencies only came under the control of the budget in 1973.

(4) The expenditures of this agency only came under the control of the budget in 1975.

Of the total budgeted expenditures of public agencies amounting to 201,600 million pesos for 1976, 127,364 million pesos represent current expenditures, 39,413 million pesos represent capital expenditures, and 24,823 million pesos represent amortization of debt.

The share of borrowed resources in the financing of capital outlays, which traditionally has been low for all official agencies, has recently been growing for certain of them, including Pemex and the Federal Electricity Commission. This reflects the inability of current account surpluses to keep pace with growth requirements that existed until prices and tariffs of both agencies were increased during 1974.

Taxation

The Federal tax structure establishes the following principal categories of taxes: a graduated income tax at progressive rates, taxes on the exploitation of natural resources and their derivatives, taxes on manufacturing and commerce, a tax on commercial receipts, a stamp tax, and import and export duties.

Income taxes have generated an increasing portion of the total Federal tax revenues in recent years, rising from 36.5% of Federal tax revenues in 1960 to 41.2% in 1974. A Federal Register of Taxpayers was established in 1962. Partly as a result, the number of income taxpayers registered throughout the country rose from 5,399,622 at the end of 1964 to 12,757,000 in October 1974. As a result of income tax legislation enacted early in 1965, the former schedular system of Federal income taxation, in which income from different sources was taxed at different rates, has been simplified. Income tax for business enterprises, after certain deductions and allowances, is applied at effective rates that increase from 0% on the first 2,000 pesos of taxable income to 42% of total taxable income when that income exceeds 500,000 pesos.

Several tax reforms have been enacted since 1971, aimed chiefly at (a) increasing the Government's share in national income so as to enable it to finance a larger proportion of public investment out of tax resources, (b) promoting exports and achieving a better regional pattern of industrial growth, and (c) improving the efficiency of tax collections. The increase in the Government's share of national income is to be derived from higher and more progressive tax rates on household incomes, higher excise rates on non-essential consumables and certain changes in corporate taxation. The tax measures to improve the regional pattern of industrialization include tax incentives and the supplying of subsidized resources, while the promotion of exports is being fostered mainly by means of import liberalization, technical assistance and credit availabilities. Improvements in tax administration are aimed both at reducing tax evasion and economizing on collection costs.

These tax modifications introduced between 1971 and 1974 have resulted in an increase in the Government's revenues, as a percentage of Gross Domestic Product, from 9.7% to 11.5%. It is estimated that this percentage will rise to 13.5% in 1975.

PUBLIC DEBT

The total direct debt of the Federal Government as of December 31, 1975 represented approximately 19.5% of Mexico's estimated 1975 Gross Domestic Product as compared to 15.4% in 1970. The following table sets forth the Federal Government's direct internal and external debt (all of which is funded) as of the dates indicated.

DIRECT DEBT OF FEDERAL GOVERNMENT

<u>December 31</u>	(millions of pesos)	<u>Internal</u>	<u>External(1)(2)</u>	<u>Total</u>
1970		53,842	10,729	64,571
1971		58,858	11,028	69,886
1972		74,241	12,154	86,395
1973		98,616	16,227	114,843
1974		130,811	23,896	154,707
1975(3)		176,230	34,066	210,296

(1) External debt includes indebtedness to national credit institutions including Nacional Financiera which received funds from external borrowings and reloaned such funds to the Federal Government (see also Note (1) to table: "External Funded Debt of Public Sector") and includes funds transferred to public agencies of Mexico, which debt is to be

(Notes continued on following page)

(NOTES—continued)

repaid and serviced by such agencies, being 1,944 million pesos (1970); 1,682 million pesos (1971); 2,348 million pesos (1972); 2,710 million pesos (1973); 5,296 million pesos (1974); and 14,683 million pesos (1975).

- (2) Amounts based on rates of conversion prevailing on the dates indicated.
- (3) Preliminary.

In addition to its direct debt, the Federal Government has specifically guaranteed the principal and interest payable in respect of certain obligations of public agencies, principally Nacional Financiera, Federal Toll Roads and Bridges, Federal Electricity Commission and National Railways of Mexico. As of December 31, 1975, the outstanding principal amount of such obligations was 34,145 million pesos, of which 19,764 million pesos (equivalent to \$1,581.1 million) represented external obligations, substantially all payable in United States dollars, and 14,381 million pesos represented internal obligations payable in pesos. All such guaranteed debt constituted funded debt.

In addition to the specific guarantees granted by the Federal Government for particular obligations of certain agencies (including Nacional Financiera), under the Organic Laws governing three of the principal national credit institutions (namely, Nacional Financiera, the National Bank of Public Works and Services and the National Bank for Rural Credit), the Federal Government (or, in the case of Nacional Financiera, the Nation) is responsible for the external obligations of those institutions. The amount of such obligations outstanding at December 31, 1975, is shown in the table on page 57.

The total external funded debt of the public sector consists of the external portion of the direct indebtedness and guarantees of the Federal Government together with the external funded indebtedness incurred directly or guaranteed by public agencies and public companies for the public sector but not carrying the specific guarantee of the Government. Such public sector debt at December 31 in each of the years 1970 through 1975 was as indicated in the table below.

EXTERNAL FUNDED DEBT OF PUBLIC SECTOR

<u>December 31</u>	<u>Total</u>	<u>Direct Debt of the Federal Government</u>	<u>Debt Guaranteed by the Federal Government (1)</u>	<u>Debt of Other Public Agencies (2) (3)</u>
		(millions of dollars)		
1970	\$ 3,260	\$ 858	\$ 807	\$1,595
1971	3,554	882	788	1,884
1972	4,255	972	952	2,331
1973	5,732	1,298	1,013	3,421
1974	7,981	1,912	1,279	4,790
1975(4)	11,520	2,725	1,581	7,214

- (1) On behalf of public agencies including Nacional Financiera.
- (2) Excludes external debt issued or guaranteed by Nacional Financiera which has been re-loaned to or guaranteed on behalf of private companies amounting at December 31, 1975 to the equivalent of P 4,975 million (\$398 million).
- (3) Direct debt of, or guaranteed by, Nacional Financiera, the National Bank of Public Works and Services, the National Foreign Trade Bank and other public agencies (principally Pemex, Federal Electricity Commission and National Railways of Mexico) not carrying the specific guarantee of the Federal Government.
- (4) Preliminary.

The Revenue Law for 1975 provides that the authorization of the Ministry of Finance and Public Credit is required for any borrowings, external or internal, undertaken by any of the public agencies, including national credit institutions.

The present administration has established strict controls and a high level of coordination concerning participation in international capital markets by public sector entities. It is intended that external financing continue to be used in a supplementary manner in the carrying out of economic development projects capable of generating or saving foreign exchange. At the same time a major effort is being made to contract new loans of the latest possible maturity in order to improve the maturity structure of external public debt.

The following table sets forth the debt service requirements for the indicated periods in respect of the external funded debt of the public sector outstanding as of December 31, 1975.

SERVICE REQUIREMENTS OF EXTERNAL FUNDED DEBT OF PUBLIC SECTOR (1)
(millions of dollars)

Payment Periods	Principal	Interest	Total Debt Service
Due 1976	\$ 1,057.4	\$1,084.2	\$ 2,141.6
Due 1977	1,305.1	1,012.9	2,318.0
Due 1978	1,851.8	936.5	2,788.3
Due 1979	1,827.3	862.7	2,690.0
Due 1980	1,771.2	730.9	2,502.1
Total	7,812.8	4,632.2	12,445.0
Due 1981-1985	2,947.3	1,085.2	4,032.5
Due 1986-1990	675.7	146.5	822.2
Due 1991-1995	69.4	12.1	81.5
Due 1996-2003	14.8	2.0	16.8
Total	\$11,520.0	\$5,878.0	\$17,398.0

(1) Preliminary.

Debt Record

Full debt service has been paid when due on all external debt issued by the Federal Government of Mexico since the adoption of the Constitution of 1917, as well as on all external debt issued by other entities since that time which was assumed or guaranteed by the Government or for which the Government is by law responsible.

As a result of several years of internal disturbance, the entire Federal Government debt outstanding in 1914 went into default in that year. Debt settlement agreements made in the 1920's were not carried out by the Government because of continuing financial difficulties, but in 1942 and 1946 the Government entered into agreements with the International Committee of Bankers on Mexico, representing the United States and European holders of the defaulted obligations. These agreements provided for the settlement of substantially all the direct external debt of the Federal Government, certain other debt assumed or guaranteed by it, and debt of the National Railways, aggregating approximately \$464 million principal amount with arrears of interest of \$603 million. See Table II under "Tables and Supplementary Information" herein regarding the settlement terms. The holders of more than 99% of the obligations (excluding those held by subjects of or persons within countries at war with the Allied Nations in World War II and those held by persons who failed to register to become eligible for the agreements) assented to those terms. Obligations held by subjects of or persons within enemy countries and by persons who failed to register to become eligible under the agreements became vested in the Mexican Government by a Decree enacted in 1951 which provided that all such obligations belonged to Mexico and extinguished all the rights and claims of the holders of such obligations. Mexico has fulfilled all its obligations which have come due under these agreements and in 1960, in accordance with the terms thereof, prepaid a substantial portion of the outstanding bonds, the holders of which had assented to the agreements. As of January 1, 1975, Mexico had deposited with The Chase Manhattan Bank funds sufficient to acquire all assented bonds.

TABLES AND SUPPLEMENTARY INFORMATION

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table I. Internal Debt as of December 31, 1975
(Payable in Pesos)

Bonded Debt:

<u>Title and Annual Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Principal Amount Outstanding</u> (thousands of pesos)	<u>Remarks</u>
5% Highway Bonds(1)	Feb. 1956	July 1976	17,348	(a)
5% Highway Bonds(1)	Feb. 1957	July 1977	39,546	(a)
5% Highway Bonds(1)	Jan. 1958	July 1978	60,675	(a)
5% Highway Bonds(1)	Feb. 1959	July 1979	80,786	(a)
5% Highway Bonds(1)	Jan. 1960	July 1980	99,928	(a)
5% Highway Bonds(1)	Feb. 1961	July 1981	118,147	(a)
5% Highway Bonds(1)	Feb. 1962	July 1982	135,488	(a)
5% Highway Bonds	Mar. 1963	July 1983	151,994	(a)
5% Highway Bonds	May 1964	July 1984	167,705	(a)
5% Highway Bonds	Apr. 1965	July 1985	182,658	(a)
5% Highway Bonds	July 1966	July 1986	196,891	(a)
5% Highway Bonds	May 1967	July 1987	210,438	(a)
5% Highway Bonds	Aug. 1968	July 1988	223,332	(a)
5% Highway Bonds	Mar. 1969	July 1989	235,605	(a)
5% Highway Bonds	Mar. 1970	July 1990	247,287	(a)
5% Electrification Bonds(2)	Feb. 1956	Oct. 1976	17,348	(a)
5% Electrification Bonds(2)	Feb. 1957	Oct. 1977	39,546	(a)
5% Electrification Bonds(2)	Jan. 1958	Oct. 1978	60,675	(a)
5% Electrification Bonds(2)	Feb. 1959	Oct. 1979	80,786	(a)
5% Electrification Bonds(2)	Feb. 1960	Oct. 1980	99,928	(a)
5% Electrification Bonds(2)	May 1961	Oct. 1981	118,147	(a)
5% Electrification Bonds(2)	Apr. 1962	Oct. 1982	135,488	(a)
5% Electrification Bonds	Apr. 1963	Oct. 1983	151,994	(a)
5% Electrification Bonds	May 1964	Oct. 1984	167,705	(a)
5% Electrification Bonds	Apr. 1965	Oct. 1985	182,658	(a)
5% Electrification Bonds	July 1966	Oct. 1986	196,891	(a)
5% Electrification Bonds	May 1967	Oct. 1987	210,438	(a)
5% Electrification Bonds	Aug. 1968	Oct. 1988	223,332	(a)
5% Electrification Bonds	Mar. 1969	Oct. 1989	235,605	(a)
5% Electrification Bonds	Feb. 1970	Oct. 1989	247,287	(a)
Public Works Bonds (non-interest bearing)	Oct. 1940	Dec. 1990	75,000	(b)
8% Industrial Promotion Bonds	Nov. 1964-65	Nov. 1979	3,893,554	(a)
8% Industrial Promotion Bonds	Dec. 1965	Dec. 1980	4,221,486	(a)
8% Industrial Promotion Bonds	Jan. 1967	Jan. 1982	3,464,826	(a)
8% Industrial Promotion Bonds	Mar. 1968	Mar. 1983	3,857,865	(a)
8% Industrial Promotion Bonds	Mar. 1969	Mar. 1984	4,221,251	(a)
8% Industrial Promotion Bonds	Mar. 1970	Mar. 1985	4,557,222	(a)
8% Industrial Promotion Bonds	Nov. 1971	Nov. 1986	10,028,513	(a)
6% Bonds for Development of Agricultural Production(3)	Aug. 1950	Jan. 2000	268,000	(b)
5% Federal-state Cooperation Bonds	Feb. 1957	Jan. 1977	4,733	(a)
5% Agrarian Debt Bonds(4)	—	—	1,272	—
8% Bonds for Economic and Social Development of the United Mexican States	Dec. 1973	Sept. 1988	23,107,128	—
8% Bonds for Economic and Social Development of the United Mexican States	Mar. 1975	1990(5)	54,019,345	(a)

(Continued)

TABLES AND SUPPLEMENTARY INFORMATION
PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table I. Internal Debt as of December 31, 1975—Continued
(Payable in Pesos)

<u>Title and Annual Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Principal Amount Outstanding</u> (thousands of pesos)	<u>Remarks</u>
PUBLIC INTERNAL DEBT BONDS				
(non-interest bearing):				
Series D	Sept. 1944	Various 1984	275	(b)
Series E	Sept. 1945	Various 1985	2,700	(b)
Series F	Jan. 1946	Various 1986	3,000	(b)
Series G	Jan. 1952	Various 1992	9,000	(b)
Series H	Jan. 1952	Various 1992	9,000	(b)
Series I	Jan. 1952	Various 1992	4,500	(b)
Series J	Dec. 1932	Various 1994	1,710	(b)
Provisional Certificates			\$50,875,000	(a)

<u>Title and Annual Interest Rate</u>	<u>Date of Contract</u>	<u>Date of Maturity</u>	<u>Principal Amount Outstanding(6)</u>	<u>Remarks</u>
<i>Loans:</i>				
LOANS FROM NATIONAL BANK FOR PUBLIC WORKS AND SERVICES:				
For public works, acquisitions and construction (13.5%-14.0%)	Various	Various 1980	1,772,215	(c)
LOANS FROM NACIONAL FINANCIERA:				
For public works and other purposes (6.5%-14.5%)	Various	Various 1980	4,427,343	(c)
OTHER LOANS:				
For acquisitions of land for school construction, other acquisitions, construction, installations and miscellaneous (8.0%-13.8%) ...	Various	Various 1982	3,069,589	(c)
Total Internal Funded Debt			<u>176,230,183</u>	

- (1) Secured by a lien on the revenues from the Federal tax on the sale of gasoline.
- (2) Secured by a lien on the revenues from the Federal tax on manufactured tobacco and, in the case of bonds issued in the years 1954-1955, on the dividends on the Series "A" shares of the Bank of Mexico, payable to the Federal Government.
- (3) Secured by a lien on the Federal income and excess profits taxes paid by the Bank of Mexico and a lien on the dividends on the Series "A" shares of the Bank of Mexico payable to the Federal Government.
- (4) Service on these bonds was suspended in 1931 and was not resumed by reason of subsequent changes in the Agrarian Codes.
- (5) Redeemable at the option of the holder at any time during 1990.
- (6) Preliminary.

- (a) Equal semi-annual or quarterly level debt service payments.
- (b) Equal annual redemptions to retire entire issue by maturity.
- (c) Various periodic payments to retire indebtedness.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975
(Payable in Foreign Currencies) (1)

<u>Title</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>Adjusted Principal Amount Outstanding</u>			<u>Amortization or Sinking Fund Provisions</u>
			<u>Assented</u>	<u>Non-Assented</u>	<u>Total</u>	
			(thousands of dollars)			
PRE-1917 DEBT:						
Bonds originally issued, assumed or guaranteed by Federal Government, subject to debt settlement Agreement of November 5, 1942(2)	1885-1913	(3)	\$ 0(4)	\$130(5)	\$ 130(6)	(7)
Railroad Bonds subject to debt settlement Agreement of February 20, 1946: (8)	1889-1914	(9)		363(10)	363(11)	(12)
Total Pre-1917 Debt			—	\$493	\$ 493	—
(equivalent in thousands of pesos)			=		(6,163)	

- (1) Conversions of amounts in foreign currencies are made at the official rate of \$1 = 12.50 pesos in effect at December 31, 1975.
- (2) Under the Agreement of 1942, bondholders became entitled to receive annual redemption payments aggregating approximately 20% of the original principal amount of their bonds, and both interest in arrears and current interest became payable in substantially reduced amounts.
- (3) All the bonds subject to the Agreement of 1942 have original maturity dates prior to the date of this Securities Report, but such maturities were extended to 1963 for the secured bonds and to 1968 for the remainder of the bonds which assented to the Agreement.
- (4) All outstanding bonds which assented to the Agreement of 1942 were called for redemption in 1960 and the funds received for such prepayment were deposited with The Chase Manhattan Bank.
- (5) Although no provision has been made for payment of the bonds the holders of which registered but did not assent to the Agreement of 1942, the Government includes such bonds in its External Debt at the reduced dollar principal amounts established by the Agreement.
- (6) Bonds, the holders of which did not register to become eligible for the Agreement of 1942, in the aggregate original principal amount of \$29,760,000, are not considered to be debt of the Government and consequently are not included in the totals, pursuant to the Law Concerning the Disposition of enemy-held Bonds, of December 29, 1951, enacted in view of Mexico's status as one of the Allied Nations in World War II and in accordance with the principles of post-war international reparations. That Law vested in the nation the entire rights and property to any "enemy-held" bonds included in the issues subject to the Agreement of 1942 and extinguished all the rights and claims of holders of such bonds. The securities covered by the Law were defined not only as those bonds which during the War were located in enemy territory or held by enemy nationals but also as those bonds the holders of which had failed to register during the periods provided in the relevant decrees. Prior to 1951 and during a reopened period which finally terminated on November 20, 1953, the Government accorded non-enemy status to certain bonds the holders of which submitted appropriate applications and evidence.
- (7) There are no amortization or sinking fund provisions presently in effect for the bonds which did not assent to the Agreement of 1942.
- (8) The Agreement of 1946 offered two options to bondholders: Plan A provided for substantially the same treatment as the Agreement of 1942. Plan B eliminated current interest and provided for annual redemption at a fixed annuity at prices rising from 21% of original principal amount in 1946 to 100% in 1974. Payment of debt service on certain of the bond issues was secured by mortgages or other liens, including a lien on the receipts from a 10% Federal tax on gross revenues of the original corporation, National Railways of Mexico, which would revive in favor of the bondholders in the event of any default under the Agreement, but such liens have not been operative because the Federal Government has complied fully with the Agreement.
- (9) Pursuant to the Agreement of 1946, 1974 is the final date for the redemption of all bonds accepting Plan B under the Agreement.
- (10) Although no provision has been made for payment of the bonds the holders of which registered but did not assent to the Agreement of 1946, the Government includes such bonds in its External Debt at the reduced dollar principal amounts established by the Agreement for holders electing Plan A.
- (11) Bonds, the holders of which did not register under the Agreement of 1946, in the aggregate original principal amount of \$9,481,000, are not considered to be debt of the Government and are not included in the totals.
- (12) There are no sinking fund or amortization provisions presently in effect for the bonds which did not assent to the Agreement of 1946. Amortization provisions for the holders of the bonds who accepted Plan B thereunder are described under Note (8) hereinabove.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975—Continued
(Payable in Foreign Currencies) (8)

Title	Interest Rate	Year Contracted	Year of Final Maturity	Original Principal Amount Contracted	Amount Undisbursed (10) (16)	Principal Amount Outstanding (10) (16)	Amortization or Sinking Fund Provisions
POST-1917 DEBT:							
Bonds of the United Mexican States for Economic Development				Subtotal..	\$515,279	—	\$404,159
External Sinking Fund Bonds ...	6¼%	1963	1978	25,000	—	6,000	(1)
External Sinking Fund Bonds ...	6½	1964	1979	25,000	—	6,310	(2)
External Sinking Fund Bonds ...	6¼	1964	1979	35,000	—	11,060	(3)
External Sinking Fund Bonds ...	6½	1965	1980	27,500	—	10,585	(3)
External Sinking Fund Bonds ...	6%	1966	1981	15,000	—	6,870	(1)
External Sinking Fund Bonds ...	7%	1966	1981	10,000	—	4,560	(2)
External Sinking Fund Bonds ...	7	1967	1982	25,000	—	12,050	(2)
External Sinking Fund Bonds ...	7	1968	1980	25,000	—	19,060	(6) (9)
External Sinking Fund Bonds ...	6	1968	1983	11,625	—	15,252	(6) (9)
External Sinking Fund Bonds ...	7	1968	1984	25,000	—	25,922	(7) (9)
External Sinking Fund Bonds ...	8½	1972	1987	40,000	—	40,000	(6)
External Sinking Fund Bonds ...	8½	1972	1997	35,000	—	35,000	(6)
External Sinking Fund Bonds ...	7¼	1973	1988	31,000	—	38,120	(9) (11)
External Sinking Fund Bonds ...	7.9	1973	1985	37,674	—	32,750	(9) (12)
External Purchase Fund Bonds ..	8¾	1973	1991	30,000	—	27,500	(13)
External Bonds	10	1975	1980	75,000	—	75,000	(14)
External Bonds	9	1975	1982	42,480	—	38,120	(9) (15)
Loans from Export-Import Bank contracted through Nacional Financiera				Subtotal..	36,767	53	8,504
	5%	1965	1981	23,750	—	4,487	(4)
	6	1967	1982	3,000	—	1,166	(4)
	5½	1966	1981	1,750	—	459	(4)
	6	1967	1977	3,500	—	615	(4)
	6	1968	1978	4,300	—	1,363	(4)
	6	1973	1983	467	53	414	(4)
Loans from World Bank				Subtotal..	892,300	630,402	191,046
	5¾	1960	1979	25,000	—	8,805	(4)
	5¾	1961	1981	15,000	—	5,910	(4)
	5½	1963	1984	12,500	—	6,736	(4)
	5½	1963	1984	40,000	—	18,711	(4)
	5½	1965	1985	25,000	—	17,690	(4)
	6	1966	1986	19,000	1,059	14,693	(4)
	6¼	1968	1988	25,000	1,147	22,599	(4)
	6¼	1968	1988	27,500	—	22,924	(4)
	7	1970	1995	21,800	3,911	17,363	(4)
	7¼	1972	1996	22,000	8,904	13,096	(4)
	7¼	1972	1997	20,000	3,289	15,111	(4)
	7¼	1972	1997	500	316	184	(4)
	7¼	1973	1997	90,000	82,123	7,877	(4)
	7¼	1974	1998	25,000	23,890	1,110	(4)
	7¼	1974	1994	90,000	88,715	1,285	(4)
	7¼	1974	1999	47,000	45,944	1,056	(4)
	7¼	1974	1999	77,000	61,104	15,896	(4)
	8	1974	1999	50,000	50,000	—	(4)
	8½	1975	2000	150,000	150,000	—	(4)
	8½	1975	2000	110,000	110,000	—	(4)

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975—Continued
(Payable in Foreign Currencies) (8)

Title	Interest Rate	Year Contracted	Year of Final Maturity	Original Principal Amount Contracted	Amount Undisbursed (10)(16)	Principal Amount Outstanding (10)(16)	Amortization or Sinking Fund Provisions
(thousands of dollars)							
Loans from Inter-American Development Bank contracted through Nacional Financiera				Subtotal.. \$ 802,296	\$ 223,932	\$ 493,492	
	5¼ %	1961	1981	13,000	—	4,588	(4)
	5%	1962	1982	5,744	—	2,196	(4)
	3½	1962	1982	9,200	—	3,666	(4)
	2	1962	1982	1,000	—	384	(4)
	2	1963	1983	3,000	—	1,056	(4)
	4	1963	1978	3,791	—	941	(4)
	5%	1963	1983	1,200	—	500	(4)
	5%	1964	1984	20,000	—	9,714	(4)
	5%	1963	1988	25,500	—	14,471	(4)
	2	1963	1992	5,000	—	3,739	(4)
	2	1964	1985	2,100	—	1,019	(4)
	4	1964	1989	9,800	—	6,426	(4)
	3½	1965	1985	4,824	—	2,348	(4)
	4	1966	1991	33,000	—	24,951	(4)
	6	1966	1991	21,000	—	12,803	(4)
	4	1967	1983	5,000	—	3,261	(4)
	6½	1967	1987	13,060	—	8,856	(4)
	3	1967	1992	13,000	—	10,214	(4)
	4	1967	1992	11,080	—	8,503	(4)
	—	1967	2017	500	396	110	(4)
	4	1968	1983	2,500	—	1,563	(4)
	3	1968	1993	34,100	—	28,417	(4)
	7%	1968	1989	10,500	109	9,619	(4)
	3	1969	1989	1,200	—	1,059	(4)
	7%	1969	1989	28,986	—	31,674	(4)
	4	1970	1990	9,620	5,031	3,968	(4)
	4	1970	1990	10,440	421	10,019	(4)
	3	1970	1995	26,000	—	26,000	(4)
	8	1970	1990	8,280	462	7,716	(4)
	8	1970	1990	33,500	—	33,994	(4)
	4	1970	1990	11,000	39	10,594	(4)
	8	1970	1990	5,560	—	5,483	(4)
	4	1971	1996	22,000	4,144	17,856	(4)
	4	1971	1991	5,800	3,613	2,187	(4)
	8	1971	1991	14,000	—	14,716	(4)
	8	1971	1991	11,878	—	12,855	(4)
	8	1971	1989	21,433	2,230	18,813	(4)
	8	1972	1992	25,000	2,302	22,698	(4)
	3	1972	1997	35,000	5,520	29,480	(4)
	3	1972	1998	23,100	13,236	9,864	(4)
	8	1973	1995	21,000	10,538	10,462	(4)
	4	1973	1993	10,000	6,595	3,405	(4)
	8	1973	1993	14,000	6,418	7,582	(4)
	3	1974	1999	34,000	23,835	10,165	(4)
	8	1974	1992	43,000	28,214	14,786	(4)
	8	1974	1995	35,000	30,535	4,465	(4)
	4	1974	2000	14,100	11,258	2,842	(4)
	8	1975	2000	8,000	7,194	806	(4)
	3	1975	2000	37,000	20,586	16,414	(4)
	8	1975	1995	45,500	41,256	4,244	(4)
Loans from U.S. Agency for International Development contracted through Nacional Financiera	3½	1964	1985	2,000	100	1,130	(4)

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(A) DIRECT DEBT

Table II. External Debt as of December 31, 1975—Continued
(Payable in Foreign Currencies) (8)

Title	Interest Rate	Year Contracted	Year of Final Maturity	Original Principal Amount Contracted	Amount Undisbursed (10) (16)	Principal Amount Outstanding (10) (16)	Amortization or Sinking Fund Provisions
				(thousands of dollars)			
Loans from Other Banks and from Suppliers				2,187,334	338,888	1,626,418	
a. 24 loans contracted through Nacional Financiera with Bank of America, Banque Transatlantique, Banque de l'Indochine, Credit Lyonnais, Credit National, Istituto Mobiliare Italiano, The Chase Manhattan Bank and 15 suppliers	4-13 1/4 %	Various 1966-75	Various 1976-95	270,333	23,244	224,974	(4)
b. 29 loans contracted through National Bank of Public Works and Services with Western American Bank, Singer & Friedlander Ltd., The First National Bank of Chicago, First National City Bank, United California Bank, Swiss Bank, Bank of America, First Boston (Europe) Ltd and Kuhn, Loeb & Co.	6 1/2-11 1/2	Various 1966-75	Various 1985	566,650	—	422,511	(4)
c. Loan contracted through National Bank of Foreign Trade with N. M. Rothschild and Sons Ltd.	6-9	1973	1983	63,894	8,862	39,200	(4)
d. 4 loans contracted with other banks through different syndications	8-9 1/2	1974-75	1979-80	1,170,000	300,000	870,000	(4)
e. 36 loans contracted directly with suppliers	6-9	Various 1966-75	Various 1976-89	116,507	6,782	62,983	(4)
Miscellaneous Indebtedness						6,750	
TOTAL POST-1917 DEBT					<u>1,193,375</u>	<u>2,724,749</u>	
peso equivalent (thousand pesos) (8) .						<u>(34,059,363)</u>	
TOTAL FUNDED EXTERNAL DEBT						<u>2,725,242</u>	(5)
peso equivalent (thousand pesos) (8) .						<u>(31,065,525)</u>	(5)

- (1) Semi-annual sinking fund payments calculated to retire 96% of the Bonds prior to maturity.
- (2) Semi-annual sinking fund payments calculated to retire approximately 96% of the Bonds prior to maturity.
- (3) Semi-annual sinking fund payments calculated to retire approximately 94% of the Bonds prior to maturity.
- (4) Annual, semi-annual, quarterly or monthly amortization calculated to retire loans by maturity.
- (5) Of this total, \$1,174,659,000 (14,683,237,500 pesos), corresponds to funds transferred to public agencies with financial structures which allow them to satisfy the corresponding amortization service, so that the direct obligations of the Federal Government at this date amounted to \$1,550,583,000 (19,382,287,500 pesos).
- (6) Annual sinking fund payments calculated to retire the bonds by maturity.
- (7) Annual sinking fund payments calculated to retire 88% of bonds prior to maturity.
- (8) Conversions of amounts in foreign currencies are made at the official rate of \$1 = 12.50 pesos in effect at December 31, 1975.
- (9) The principal amounts outstanding having been adjusted to reflect currency devaluations.
- (10) Include revaluation, because of changes in parity of foreign currencies.
- (11) Annual sinking fund payments calculated to retire 85% of the bonds prior to maturity.
- (12) Annual sinking fund payments calculated to retire 60% of the bonds prior to maturity.
- (13) Annual purchase fund payments calculated to retire approximately 70% of the bonds prior to maturity.
- (14) One payment at the end of the fifth year, with the option to enlarge the term until 1990, for which will be created a Sinking Fund for the Bond redemption.
- (15) One payment at the period's end.
- (16) Preliminary.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(B) DEBT GUARANTEED BY THE FEDERAL GOVERNMENT

Table III. Guaranteed Internal Debt as of December 31, 1975
(Payable in Pesos)

<u>Guarantee Granted On Behalf Of:</u>	<u>Principal Amount Outstanding(1)</u>
	(thousands of pesos)
Nacional Financiera	7,625,564
National Bank of Public Works and Services	5,340,384
Others (principally certain state governments)	1,415,081
Total Guaranteed Internal Debt(2)	14,381,029

(1) Preliminary.

(2) Excluding the Federal Government guarantee of Savings Bonds issued by the National Savings Institute which are secured primarily by income-producing assets and residually by Government guarantee. The Institute held at January 31, 1976, 3,126,127,249 pesos received from savings bond subscribers, which amount was invested in a corresponding amount of public and private securities.

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO
(B) DEBT GUARANTEED BY THE FEDERAL GOVERNMENT

Table IV. Guaranteed External Debt as of December 31, 1975 (2) (7)

(Payable in Foreign Currencies)

(Thousands of dollars)

Guarantee Granted on Behalf of:	Interest Rate	Year Contracted	Year of final Maturity	Original Principal Amount Contracted	Amount Undisbursed (1)	Principal Amount Outstanding (1)
				\$787,175	\$32,246	\$598,084
Federal Electricity Commission						
Lender—						
World Bank	4½%	1952	1977	29,700	—	3,111
World Bank	5%	1958	1983	34,000	—	17,283
World Bank	5¾	1962	1985	130,000	—	77,775
World Bank	6	1965	1985	110,000	—	80,211
World Bank	6	1965	1977	6,897	—	1,146
Monterrey Railway, Light & Power Company	3¾	1965	1977	502	—	83
Mexican Territorial Company	3¾	1965	1977	90,000	—	81,973
World Bank	6¾	1968	1988	125,000	—	125,000
World Bank	7¾	1972	1992	125,000	—	121,000
World Bank	7	1970	1990	125,000	—	1,105
World Bank	6	1969	1982	5,000	—	12,249
Export-Import Bank	6	1970	1982	18,900	—	27,090
Export-Import Bank	6	1973	1991	27,100	—	3,288
Export-Import Bank	6	1973	1981	3,420	—	34,118
Export-Import Bank	6	1973	1990	35,100	—	—
Export-Import Bank	8	1974	1980	510	510	—
Export-Import Bank	7½	1974	1985	4,160	4,160	—
Export Development Corporation	5½	1970	1979	1,040	—	392
Consortium of British Banks	6	1975	1994	17,145	17,145	—
Export-Import Bank	6	1975	1984	8,370	8,370	—
Export-Import Bank	7	1975	1985	4,268	—	4,003
Lazard Brothers and Co. Ltd.	8	1974	1982	1,058	1,058	—
Export-Import Bank	7½	1975	1985	5,514	—	4,997
Lazard Brothers and Co. Ltd.	8½	1975	1980	459	—	375
Lincas Electrovertriebs	8	1975	1985	674	668	—
Skandinaviska Enskilda Banken	8	1975	1985	1,385	—	1,247
Skandinaviska Enskilda Banken	8	1975	1985	1,973	335	1,638
Export-Import Bank	7	1975	1979	499,292	241,511	239,563
Steel Mill Lazaro Cardenas-Las Truchas-						
Baring Brothers Co.	6½	1973	1988	26,535	11,059	12,158
World Bank	7¾	1973	1988	70,000	12,222	57,628
World Bank	8	1973	1988	54,000	13,229	40,557
Inter-American Develop. Bank	6-6½	1973	1988	82,075	55,577	14,834
Baring Brothers Co.	7	1973	1988	34,000	—	13,765
Export Development Corp.	7	1973	1987	73,983	45,016	23,759
Export Import Bank of Japan	6¾	1974	1987	18,278	—	17,422
Istituto Mobiliare Italiano	7	1973	1987	29,351	10,554	16,347
Osterreichische Kontrollbank	6½	1972	1987	97,750	91,872	30,832
Credit Commercial de France and Banque Francaise du Commerce Extérieur	7	1973	1987	13,320	1,462	12,261
Kreditanstalt für Weideraubau	7	1973	1987	11,000	—	1,391
Mexican Light and Power Company						
World Bank	5%	1958	1977	11,000	—	1,391
World Bank	5%	1958	1977	224,722	45,571	132,489
National Railways of Mexico						
Export-Import Bank	5½	1965	1976	13,000	—	1,258
Export-Import Bank	6½	1967	1978	10,000	—	2,430
Export-Import Bank	6	1968	1978	20,670	—	5,704
Export-Import Bank	7¾	1972	1997	75,000	18,645	56,355
World Bank	6	1971	1976	3,238	—	3,111
Export-Import Bank	6	1969	1979	5,384	—	1,996
Export-Import Bank	6	1971	1981	7,506	—	7,407
Export-Import Bank	6	1974	1982	32,379	8,728	23,651
Export-Import Bank	6½	1971	1976	3,237	—	386
Chemical Finance Int.	8	1975	1976	13,476	1,907	11,569
Export-Import Bank	10¾ (4)	1975	1979	511	—	408
Cleveland Trust Co.	8½	1974	1979	6,180	—	4,326
General Motors Overseas	12¾ (5)	1974	1979	12,000	—	9,350
Bankers Trust Co.	8½ (6)	1975	1979	5,903	53	4,538
The National Bank of Detroit	8	1975	1985	16,238	16,238	—
Export-Import Bank	8	1975	1985	3,985	2,157	701
Pacific Railroad						
Export Development Corp.	6	1971	1982	886	—	583
Export-Import Bank	6	1968	1976	942	—	118
Export-Import Bank	8	1975	1985	2,157	2,157	—
Export-Import Bank	8	1975	1985	165,324	—	131,092
Nacional Financiera, S.A.						
Export-Import Bank	5	1960	1977	20,647	—	1,593
The Prudential Insurance Co.	6¾	1964	1982	20,000	—	19,434
United States Agency for Int. Develop.	¾	1962	2002	41,500	—	34,289

PUBLIC DEBT OF THE FEDERAL GOVERNMENT OF MEXICO

(B) DEBT GUARANTEED BY THE FEDERAL GOVERNMENT

Table IV. Guaranteed External Debt as of December 31, 1975 (2) (7)—Continued

(Payable in Foreign Currencies)

(Thousands of dollars)

Guarantee Granted on Behalf of:	Interest Rate	Year Contracted	Year of final Maturity	Original Principal Amount Contracted	Amount Undisbursed (1)	Principal Amount Outstanding (1)
United States Agency for Int. Develop.	2%	1964	1994	\$ 20,000	\$ —	\$ 17,795
The Prudential Insurance Co.	6%	1967	1985	35,000	—	35,000
Inter-American Development	6	1966	1981	8,177	—	3,763
Inter-American Development	8	1970	1985	10,000	—	8,779
Inter-American Development	8	1973	1977	10,000	—	10,089
<i>Chihuahua Pacific Rail Railway</i>				1,945	1,620	214
Export-Import Bank	8	1974	1985	1,620	1,620	—
Export-Development Corp.	6	1972	1979	325	—	214
<i>Federal Toll Roads and Bridges and Related Services</i>				62,500	—	37,680
World Bank	5%	1962	1982	30,500	—	15,885
World Bank	5½	1965	1985	32,000	—	21,795
<i>National Warehouses</i>				10,600	—	5,605
Export-Import Bank	4	1960	1980	10,600	—	5,605
<i>Altos Hornos de México, S.A.</i>				44,400	—	17,841
Export-Import Bank	5%	1963	1978	16,900	—	3,893
Export-Import Bank	6	1967	1980	27,500	—	13,948
<i>Others</i>				673,548	179,320	416,465
Export-Import Bank	5½	1966	1979	56,500	—	7,319
Export-Import Bank	6	1967	1977	6,700	—	543
Export-Import Bank	6	1972	1977	50,000	42,222	5,065
Export-Import Bank	6	1972	1982	2,297	7	2,289
Export-Import Bank	6	1973	1977	15,100	—	15,124
World Bank	6	1973	1978	45,000	1,979	42,697
Export-Import Bank	7½	1973	1993	110,000	—	110,000
Inter-American Development Bank	6	1972	1982	6,583	—	5,654
Inter-American Development Bank	2	1964	1994	10,000	—	9,174
Inter-American Development Bank	6½	1964	(3)	5,000	4,298	5,702
Inter-American Development Bank	3	1968	1993	20,000	—	15,909
Inter-American Development Bank	6½	1963	1978	4,900	—	1,851
Inter-American Development Bank	8	1971	1996	32,000	—	32,000
World Bank	7	1971	1978	1,963	—	755
World Bank	6½	1969	1989	65,000	—	61,140
World Bank	7½	1971	1991	75,000	—	73,720
Istituto Mobiliare Italiano	7½	1972	1992	35,000	12,225	22,235
Ebasco Industries	6	1967	1976	2,000	—	122
Export-Import Bank	7	1968	1978	10,000	—	3,750
World Bank	8	1975	1985	2,811	2,811	—
Export-Import Bank	8½	1975	1989	50,000	48,584	1,416
Inter-American Development Bank	8	1975	1980	2,694	2,694	—
Inter-American Development Bank	8	1976	2001	30,000	30,000	—
Inter-American Development Bank	8	1975	1995	35,000	35,000	—
Total Guaranteed External Debt.				\$2,484,491	\$502,925	\$1,581,125
(Equivalent in Thousands of Pesos)						(19,764,063)

- (1) Preliminary.
- (2) Conversions of amounts in foreign currencies are made at the official rate of \$1=12.50 pesos in effect at December 31, 1975.
- (3) Revolving Credit.
- (4) Rate of interest for each six months is calculated on the basis of the U.S. prime rate, plus a differential of ¾%.
- (5) Rate of interest for each six months is calculated on the basis of the U.S. prime rate, plus a differential of ¾%.
- (6) Rate of interest for each six months is calculated on the basis of the U.S. prime rate, plus a differential of ¾%.
- (7) Excludes certain external debt obligations of Nacional Financiera and the National Bank of Public Works and Services for which the Federal Government (or, in the case of Nacional Financiera, the Nation) is responsible (see "Public Financial Institutions" on page 57).

LEGAL OPINIONS

The validity of the Bonds will be passed upon on behalf of Nafinsa by Dr. Adolfo Maldonado Cervantes, and the validity of the Bonds will be passed upon for the Managers by Messrs. Goodrich, Dalton, Little & Riquelme, Mexico City. In addition, the validity of the Bonds will also be passed upon on behalf of Nafinsa by Messrs. Sullivan & Cromwell, New York, New York, and will be passed upon on behalf of the Managers by Messrs. Shearman & Sterling, New York, New York. As to matters of Mexican law, Messrs. Sullivan & Cromwell and Messrs. Shearman & Sterling will rely upon the opinions of Dr. Adolfo Maldonado Cervantes and Messrs. Goodrich, Dalton, Little & Riquelme. All statements of Mexican law in this Prospectus have been passed upon by Dr. Adolfo Maldonado Cervantes and by Messrs. Goodrich, Dalton, Little & Riquelme, and are made upon their authority.

SUBSCRIPTION, UNDERWRITING AND SALE

Credit Suisse White Weld Limited, Crédit Commercial de France, Dresdner Bank Aktiengesellschaft, Hambros Bank Limited, Kredietbank S.A. Luxembourgeoise, Orion Bank Limited, Société Générale, Swiss Bank Corporation (Overseas) Limited and Banco Internacional, S.A. (the "Managers") have, pursuant to a Subscription Agreement dated 16th June, 1976 agreed with Nafinsa, subject to the satisfaction of certain conditions, to subscribe or procure subscribers for the Bonds at the issue price set forth on the cover page of this Prospectus, plus accrued interest (if any) but less commissions (calculated on the principal amount of the Bonds) of $\frac{3}{8}$ per cent. for management and $\frac{3}{8}$ per cent. for underwriting and a Selling Group concession of $1\frac{1}{4}$ per cent. In addition Nafinsa has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Managers to terminate the Agreement in certain circumstances prior to payment to Nafinsa.

The Managers, on behalf of Nafinsa, have invited certain banks, brokers and dealers (the "Selling Group") to subscribe the Bonds at the issue price set forth on the cover page of this Prospectus, plus accrued interest (if any) but less the Selling Group concession of $1\frac{1}{4}$ per cent. The members of the Selling Group may concede a re-allowance of $\frac{1}{2}$ per cent. out of such concession to recognised securities dealers and a concession of up to $1\frac{1}{4}$ per cent. to certain associated companies of members of the Selling Group.

The Managers, acting on behalf of Nafinsa, have entered into Underwriting Agreements with, among others, the following Underwriters:

Austria

Creditanstalt-Bankverein
Girozentrale und Bank der Österreichischen
Sparkassen Aktiengesellschaft
Österreichische Länderbank Aktiengesellschaft

Bahamas

Bank Leu International Ltd.
Handelsbank N. W. (Overseas) Limited

Belgium

Banque Bruxelles Lambert S. A.
Dewaay & Associés International S. C. S.
Kredietbank N. V.
Peterbroeck, van Campenhout, Kempen S. A.
Société Générale de Banque S. A.

Denmark

Den Danske Bank AF 1871 Aktieselskab
Kjobenhavns Handelsbank

Finland

Bank of Helsinki Ltd.
Union Bank of Finland Limited

France

Banque Arabe et Internationale d'Investissement (B.A.I.I.)
Banque Européenne de Tokyo
Banque Française du Commerce Extérieur

Banque Française de Dépôts et de Titres
Banque de l'Indochine et de Suez
Banque Louis-Dreyfus
Banque Nationale de Paris
Banque de Neufville, Schlumberger, Mallet
Banque de Paris et des Pays-Bas
Banque Rothschild
Banque Worms
Caisse Centrale des Banques Populaires
Caisse de Dépôts et Consignations
Crédit Industriel et Commercial
Crédit Lyonnais
Crédit du Nord
Finacor
Lazard Frères et Cie.
Morgan Stanley International
Société Séquanaise de Banque
Union de Banques Arabes et Françaises—
U.B.A.F.

Germany

Bayerische Hypotheken-und Wechsel-Bank
Bayerische Landesbank Girozentrale
Berliner Handels-und Frankfurter Bank
Commerzbank Aktiengesellschaft
Deutsche Bank Aktiengesellschaft
Deutsche Girozentrale-Deutsche
Kommunalbank
Effektenbank-Warburg Aktiengesellschaft
Hessische Landesbank-Girozentrale

Merck, Finck & Co.
B. Metzler Seel. Sohn & Co.
Norddeutsche Landesbank Girozentrale
Sal. Oppenheim jr. & Cie.
Trinkaus & Burkhardt
Vereins-und Westbank Aktiengesellschaft
Westdeutsche Landesbank Girozentrale

Hong Kong

Trident International Finance Ltd.

Italy

Banca Commerciale Italiana
Banca Nazionale del Lavoro
Banco di Roma
Capitalfin Internazionale S.p.A.
Compagnia Finanziaria e Intermediaria
S.p.A.
Istituto Bancario San Paolo di Torino

Kuwait

Alahli Bank of Kuwait K.S.C.
Kuwait Financial Centre S.A. K.
Kuwait International Finance Company
S.A.K. "KIFCO"
The National Bank of Kuwait S.A. K.

Luxembourg

Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg S.A.
Banque Populaire Suisse S. A. Luxembourg
Compagnie de Banque et d'Investissements
(Underwriters) S.A.

Netherlands

Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Bank Mees & Hope NV
H. Albert de Bary & Co. N.V.
Pierson, Heldring & Pierson N.V.

Netherlands Antilles

E. F. Hutton & Co. N.V.

Norway

Andresens Bank A/S
Bergen Bank
Christiania Bank og Kreditkasse
Den norske Creditbank
Fellesbanken A/S

Panama

Trade Development Bank Overseas Inc.,
Panama

Sweden

Post-och Kreditbanken, PKbanken
Skandinaviska Enskilda Banken
Svenska Handelsbanken

Switzerland

Banca del Gottardo
Clariden Bank
Nordfinanz-Bank Zürich

United Overseas Bank
J. Vontobel & Co.

United Kingdom

A. E. Ames & Co. Limited
The Arab & Morgan Grenfell Finance
Company Limited
Julius Baer International Limited
Bank of America International
Bankers Trust International Limited
Baring Brothers & Co., Limited
Cazenove & Co.
Chase Manhattan Limited
Citicorp International Bank Limited
County Bank Limited
Daiwa (Europe) N. V.
Dillon, Read Overseas Corporation
European Banking Company Limited
First Boston (Europe) Limited
Robert Fleming & Co. Limited
Antony Gibbs Holdings Ltd.
Goldman Sachs International Corp.
Greenshields Incorporated
IBJ International Limited
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Lazard Brothers & Co., Limited
Lloyds Bank International Limited
London Multinational Bank (Underwriters)
Limited
Manufacturers Hanover Limited
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
Nesbitt, Thomson Limited
The Nikko Securities Co., (Europe) Ltd.
Nomura Europe N. V.
Nordic Bank Limited
N. M. Rothschild & Sons Limited
Salomon Brothers International Limited
Scandinavian Bank Limited
J. Henry Schroder Wagg & Co. Limited
Shields Model Roland Incorporated
Strauss, Turnbull & Co.
Sumitomo White Weld Limited
Union Bank of Switzerland (Securities)
Limited
S. G. Warburg & Co. Ltd.
Williams, Glyn & Co.
Wood Gundy Limited
Yamaichi International (Europe) Limited

United States

Arnhold & S. Bleichroeder, Inc.
Blyth Eastman Dillon & Co. International
Limited
Kuhn, Loeb & Co. International
Merrill Lynch International & Co.
Smith Barney, Harris Upham & Co.
Incorporated
Warburg Paribas Becker Inc.
White, Weld & Co. Incorporated

The Bonds have not been registered under the Securities Act of 1933 of the United States of America and may not be offered, sold or delivered directly or indirectly in the United States (which term includes the territories, possessions and all areas subject to the jurisdiction of the United States of America) or to nationals or residents thereof as part of the distribution of the Bonds. Any reoffers and resales of Bonds in the United States or to nationals or residents thereof after distribution of the Bonds has been completed must be made in compliance with the registration requirements of the Securities Act of 1933 or pursuant to an exemption therefrom; and the availability of any such exemption would depend upon the facts and circumstances existing at the time of such reoffers and resales.

The Managers have represented and agreed that in connection with the distribution of the Bonds, except for offers or sales to Underwriters and to recognised securities dealers who agree and represent that they are subscribing for distribution in conformity with these provisions, they have not offered or sold and will not offer, sell or deliver any Bonds directly or indirectly in the United States or to nationals or residents thereof. Each Underwriter and member of the Selling Group has, in its agreement with the Managers, (a) represented that it is subscribing the Bonds as principal and has not offered or sold, directly or indirectly, any of the Bonds in the United States or to nationals or residents thereof, (b) agreed that it will not offer, sell or deliver, directly or indirectly, any of the Bonds in the United States or to nationals or residents thereof, and, in the case of a United States dealer, that it will sell the Bonds within 90 days after subscription, and (c) agreed that it will deliver to any dealer to whom it sells any of the Bonds a confirmation containing substantially the same provisions. The Managers have further undertaken that each Underwriter or securities dealer who subscribes Bonds will agree that prior to 31st December, 1976 it will not, as principal or agent, offer, sell or deliver, directly or indirectly, in the United States or to nationals or residents thereof any of the Bonds, however acquired by it. However, offers or sales of Bonds may be made on certain conditions to persons outside the United States who are not nationals or residents thereof through United States agents or fiduciaries.

The Underwriters and members of the Selling Group have also agreed with the Managers that they will not within Great Britain offer or sell any Bonds to any person other than to persons whose ordinary business it is to buy or sell securities, whether as principals or agents.

ADDITIONAL INFORMATION

1. The listing on The Stock Exchange will be expressed in dollars (excluding accrued interest). Transactions on The Stock Exchange will normally be effected for settlement in that currency and for delivery of Bonds on the fifth working day after the date of the transaction. Dealings in the Bonds are expected to commence on 17th June, 1976, for deferred settlement on 9th July, 1976. The brokers to the issue are Cazenove & Co. and Strauss Turnbull & Co.
2. The Bank of England has given all necessary permissions under the Exchange Control Act, 1947, in connection with the issue and underwriting of the Bonds. The Bonds will, for United Kingdom Exchange Control purposes, be foreign currency securities as defined in Exchange Control Notice E.C.7 (Second Issue) as amended.
3. To the best of the knowledge of the Directors of Nafinsa, no litigation of material importance is pending or threatened against it.
4. Other than as described herein, no contracts have within the last two years been entered into by Nafinsa which are material in the context of the issue of the Bonds.
5. Mancera Hermanos y Cia., S.C., and Goodrich, Dalton, Little & Riquelme have given and not withdrawn their written consents to the issue of this Prospectus including a copy of their opinions in the form and context in which they are included.
6. Copies of the following documents may be inspected at the offices of Linklaters & Paines, Barrington House, 59-67, Gresham Street, London, E.C.2 during usual business hours for a period of 14 days from the date of this Prospectus:—
 - (i) a certified translation of the Organic Law of Nafinsa;
 - (ii) the English text of the audited financial statements of Nafinsa for the five years ended June 30, 1975;
 - (iii) a draft (subject to modification) of the Fiscal Agency Agreement and a specimen Bond;
 - (iv) the Subscription Agreement; and
 - (v) the opinions and written consents of Mancera Hermanos y Cia., S.C., and Goodrich, Dalton, Little & Riquelme.
7. The information set forth herein under the caption "MEXICO" has been provided to Nafinsa by the Ministry of Finance and Public Credit of the Federal Government of Mexico.
8. Copies of Nafinsa's Organic Law and audited annual reports will be available to the Bondholders so long as any Bonds are outstanding at the offices of the Fiscal Agent and of each of the Paying Agencies.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.