

ALLAS KALSI ARIKRE SIAI PAI COI MIAI LIAI HIAI
154 SCOMM 9: HOUSSE SPEC. COM. PERMANENT FUND 1977-78

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:

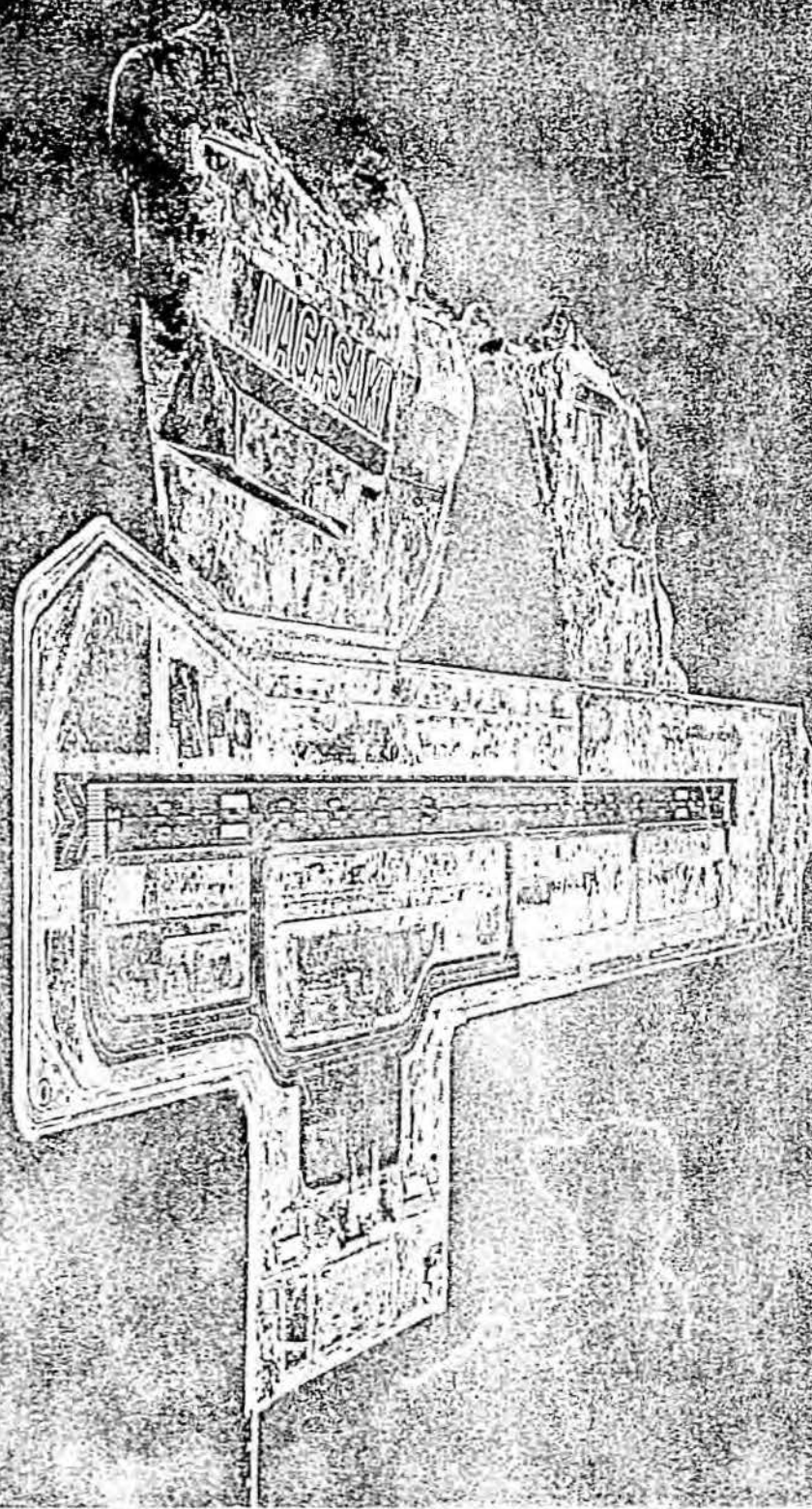
The loans for urban and regional development, and improvement of the quality of life aimed at creating better social environment of the nation by alleviating over-congestion and various forms of pollution in large cities, etc., have been increasing conspicuously in recent years and reached 387 billion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

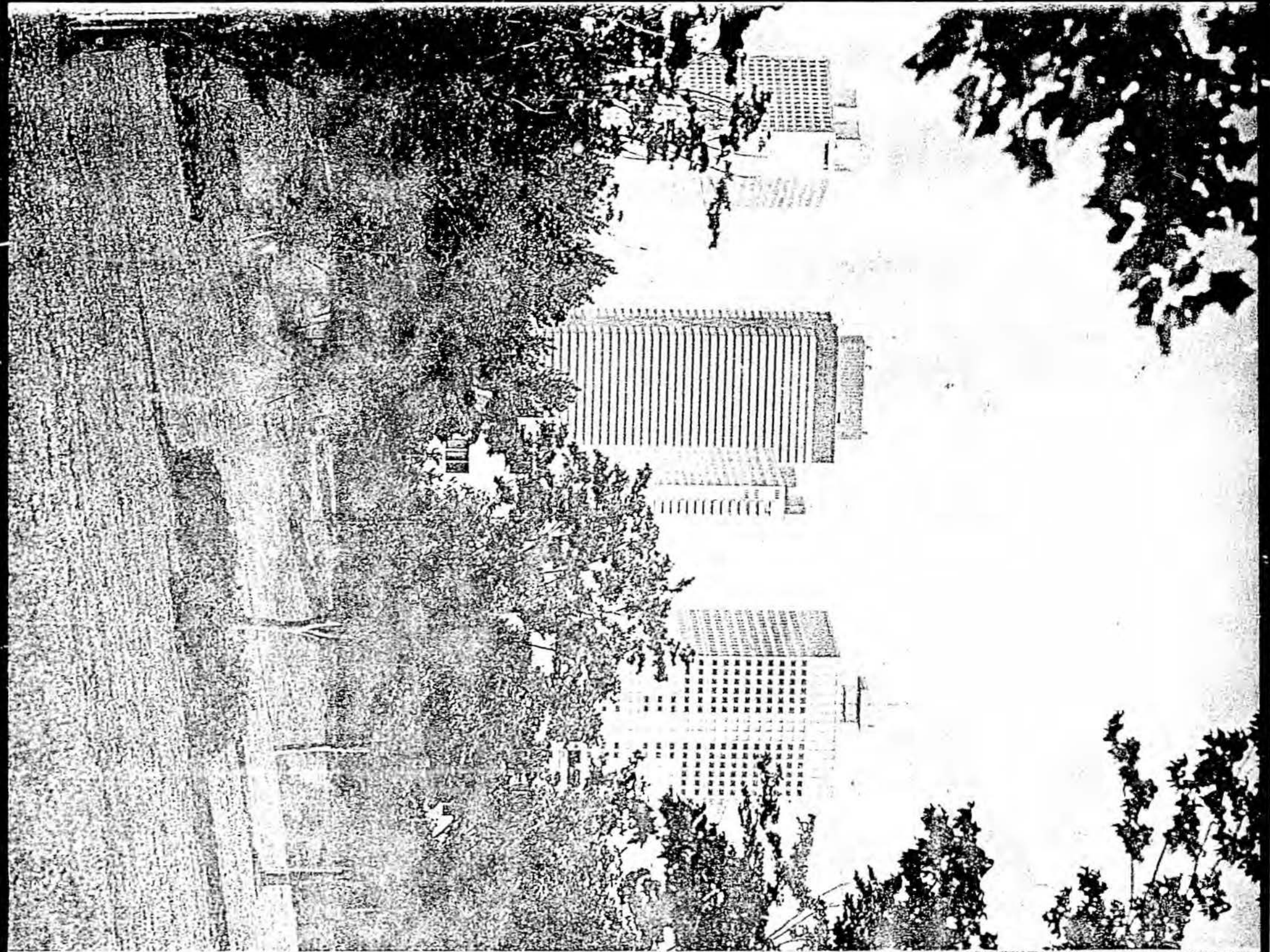
- (1) improvement of urban functions of provincial city areas,
- (2) inducing optimum location of industries, and
- (3) fostering of industries suitable to local conditions.

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.

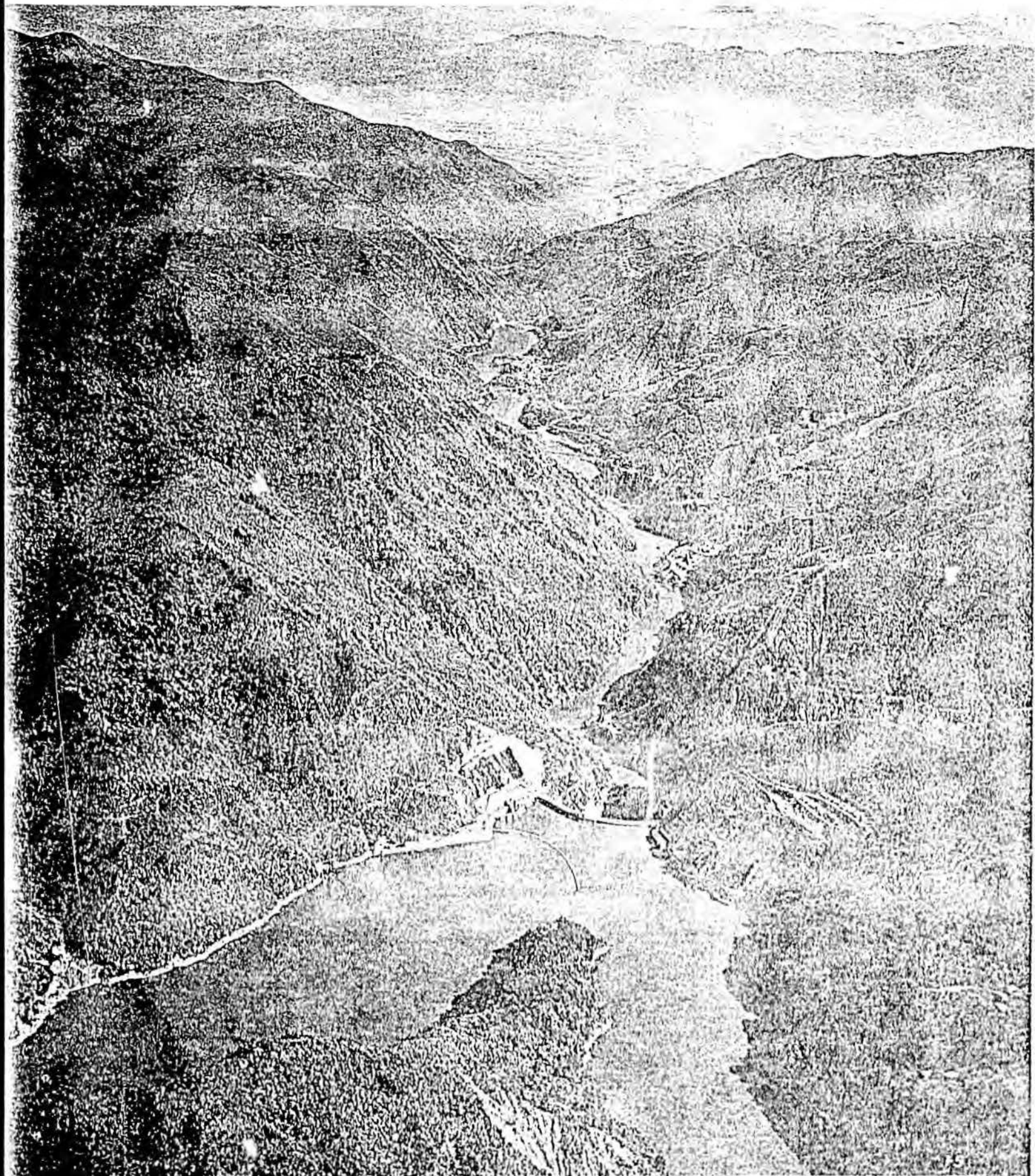
Energy Development

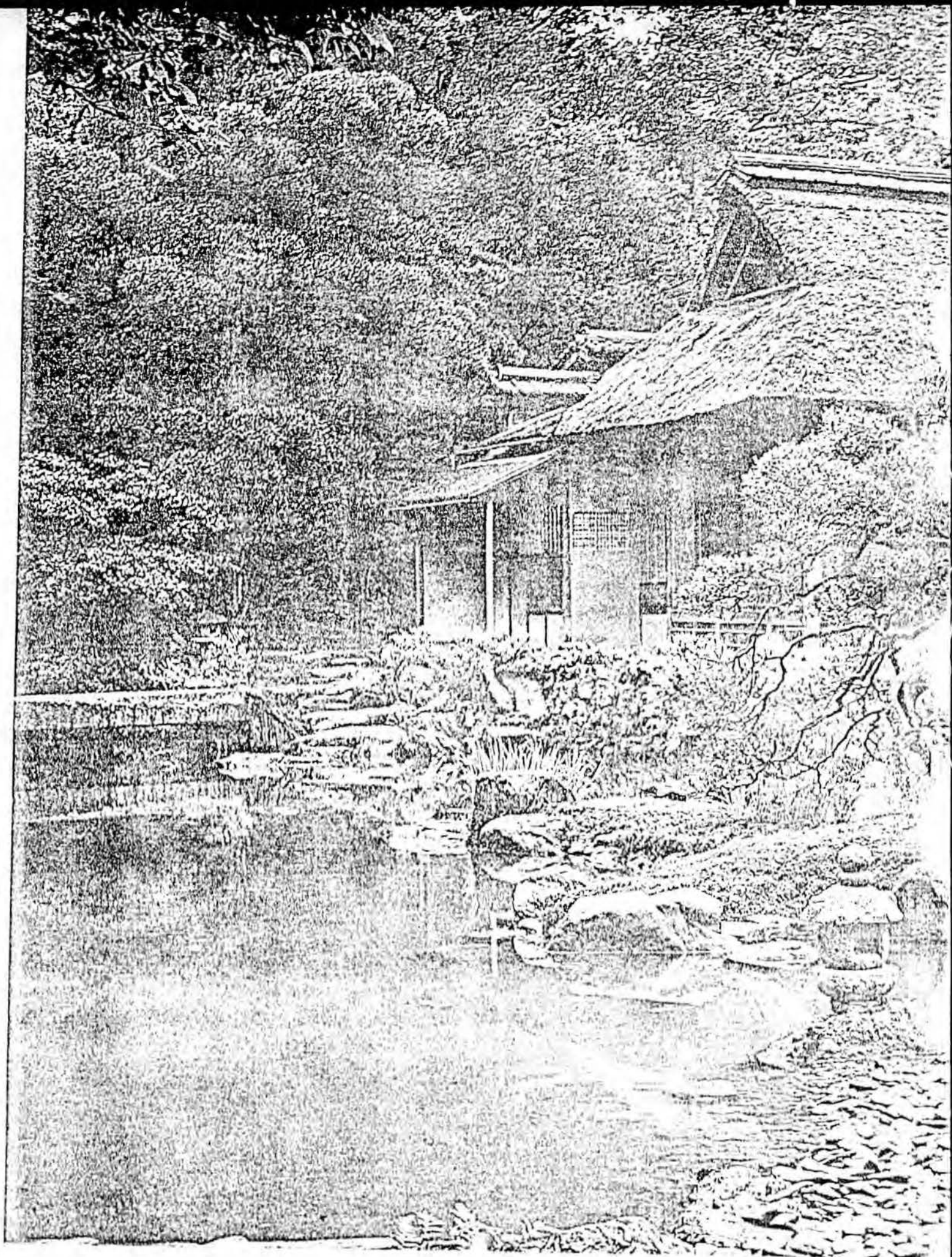
In order to contribute to stable supply and effective use of energy in Japan, the Bank in fiscal 1974 assisted projects in three categories of energy development related to: (1) nuclear power (2) oil industry and (3) other domestic energy resources.

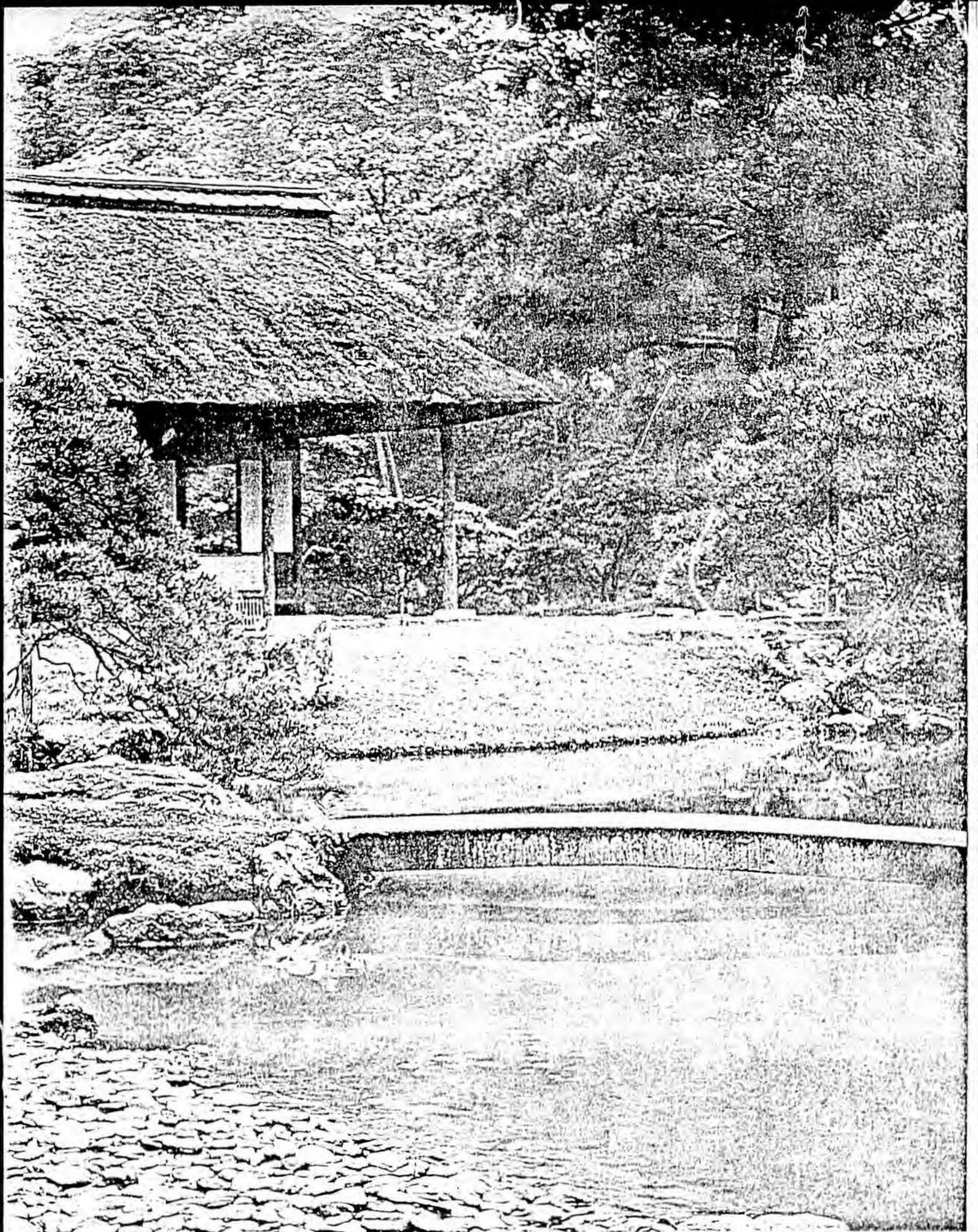
Projects for nuclear power were construction of nuclear power generating plants, including domestic manufacture of nuclear reactors. Oil industry loans were mainly for the construction of refineries and distribution systems by independent domestic oil companies and for the construction of crude oil storage 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.

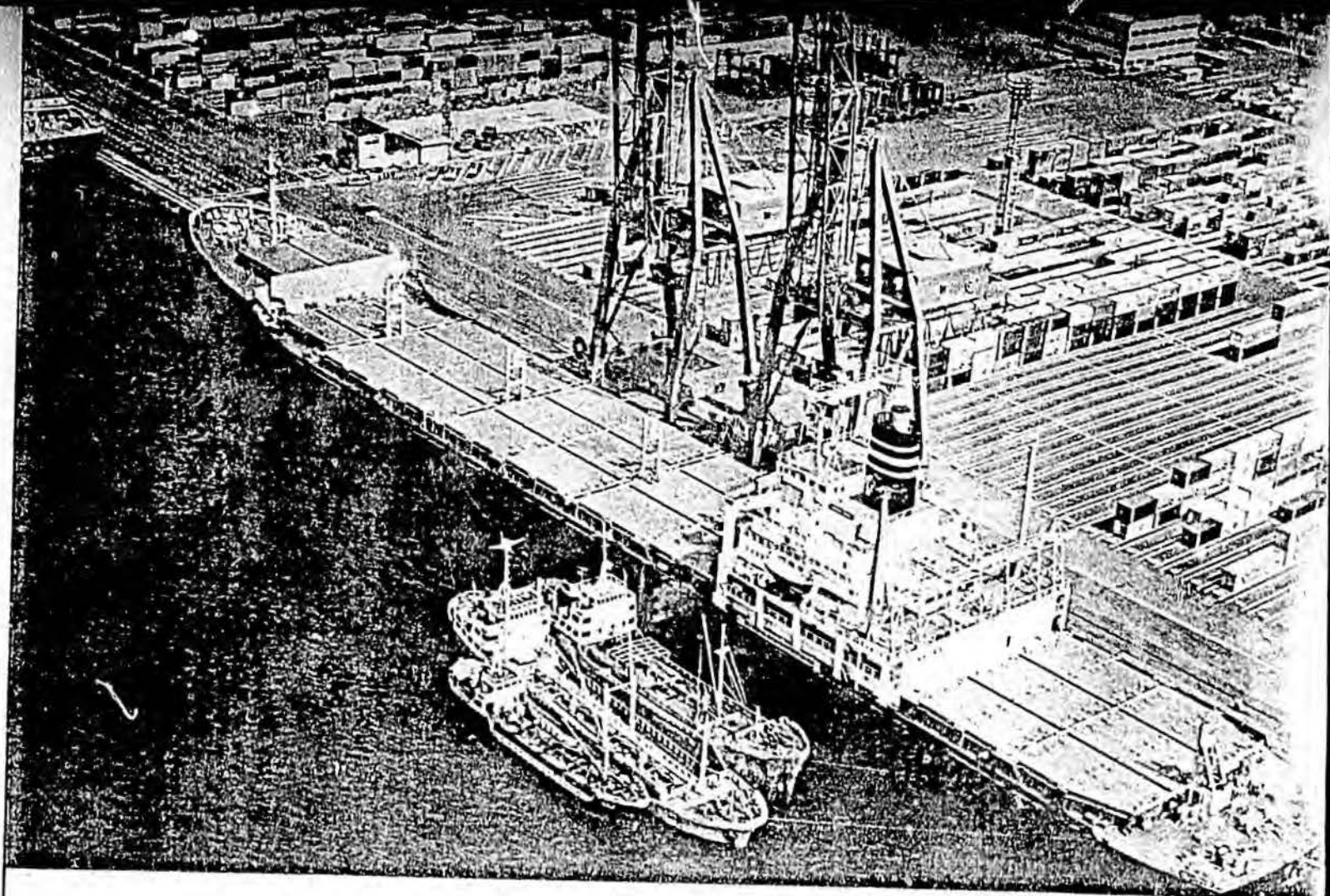
The Bank's loans for energy development amounted to 64 billion yen in fiscal 1974; loans under (1) above were 39 billion yen, loans under (2) 21 billion yen and loans under (3) 4 billion yen.

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

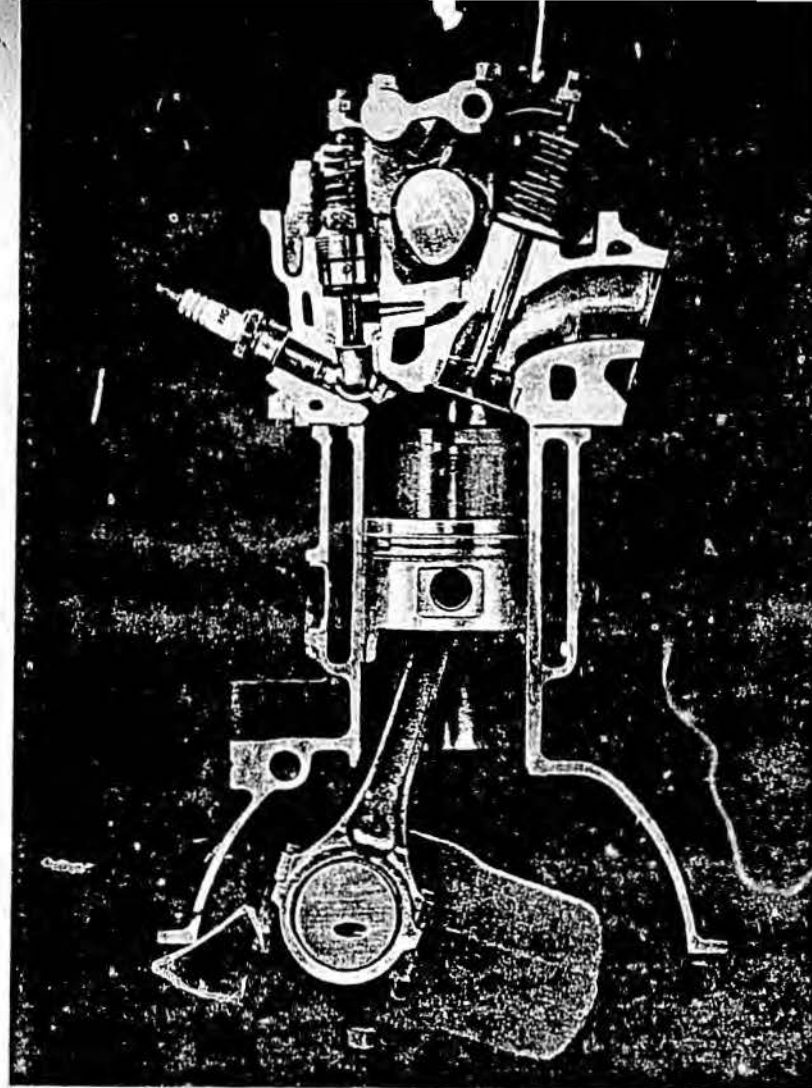
Marine Transportation

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

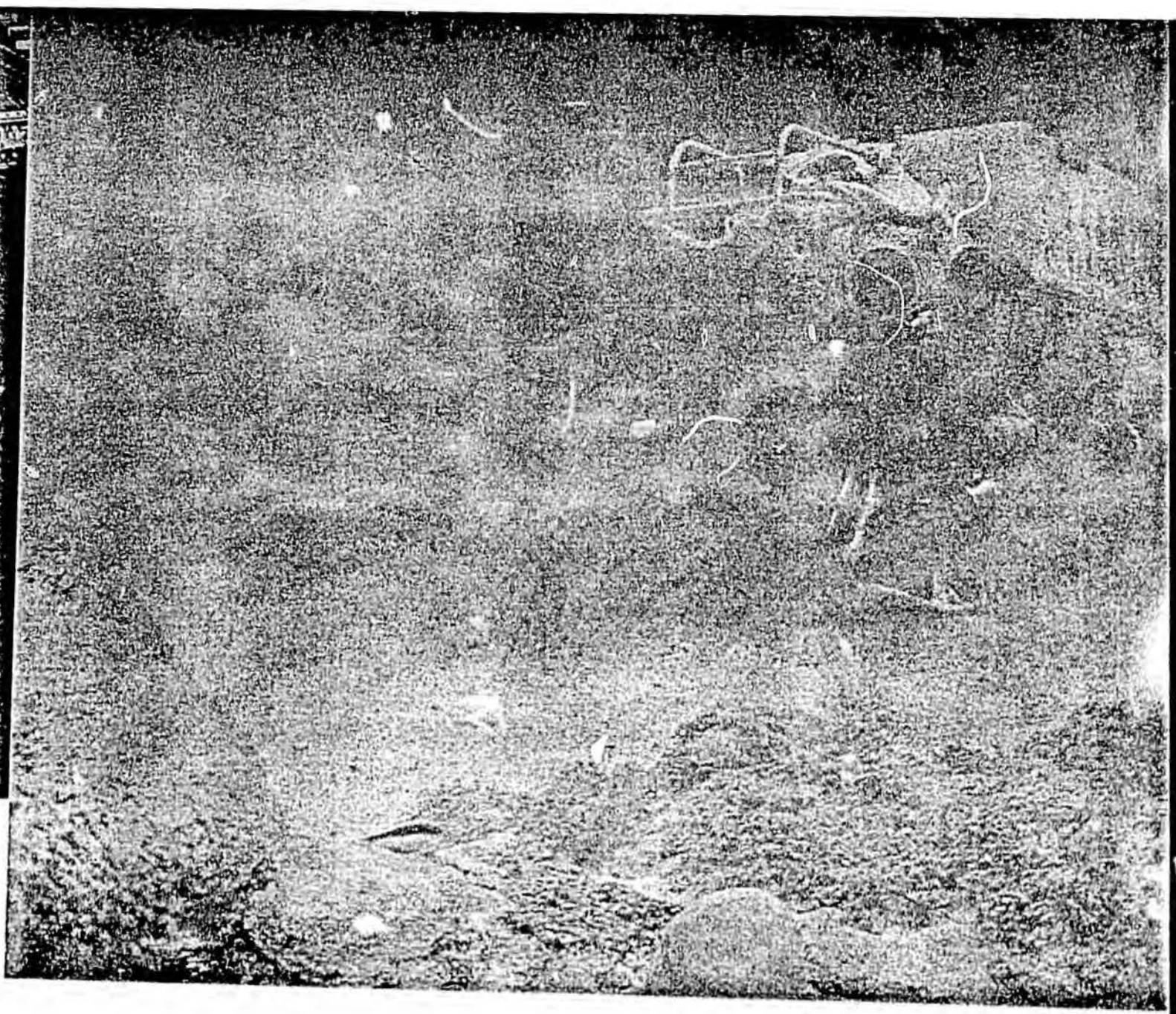
The economic development of Japan has been largely dependent upon foreign technologies and know-how. In order to maintain sound economic and social development in the future, however, Japan must develop its own technology and promote knowledge intensification of the industrial structure. In this context,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

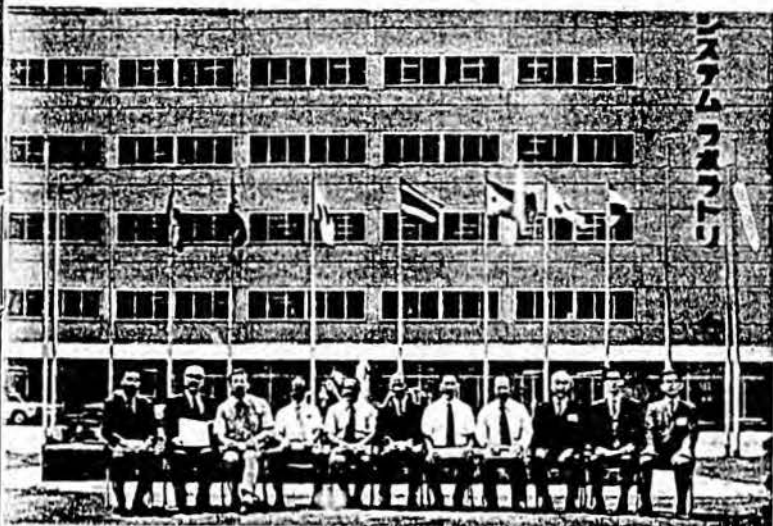
Reserved earnings in fiscal 1974 amounted to 28 billion yen, and the Bank's sources of funds in the year are summarized below:

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

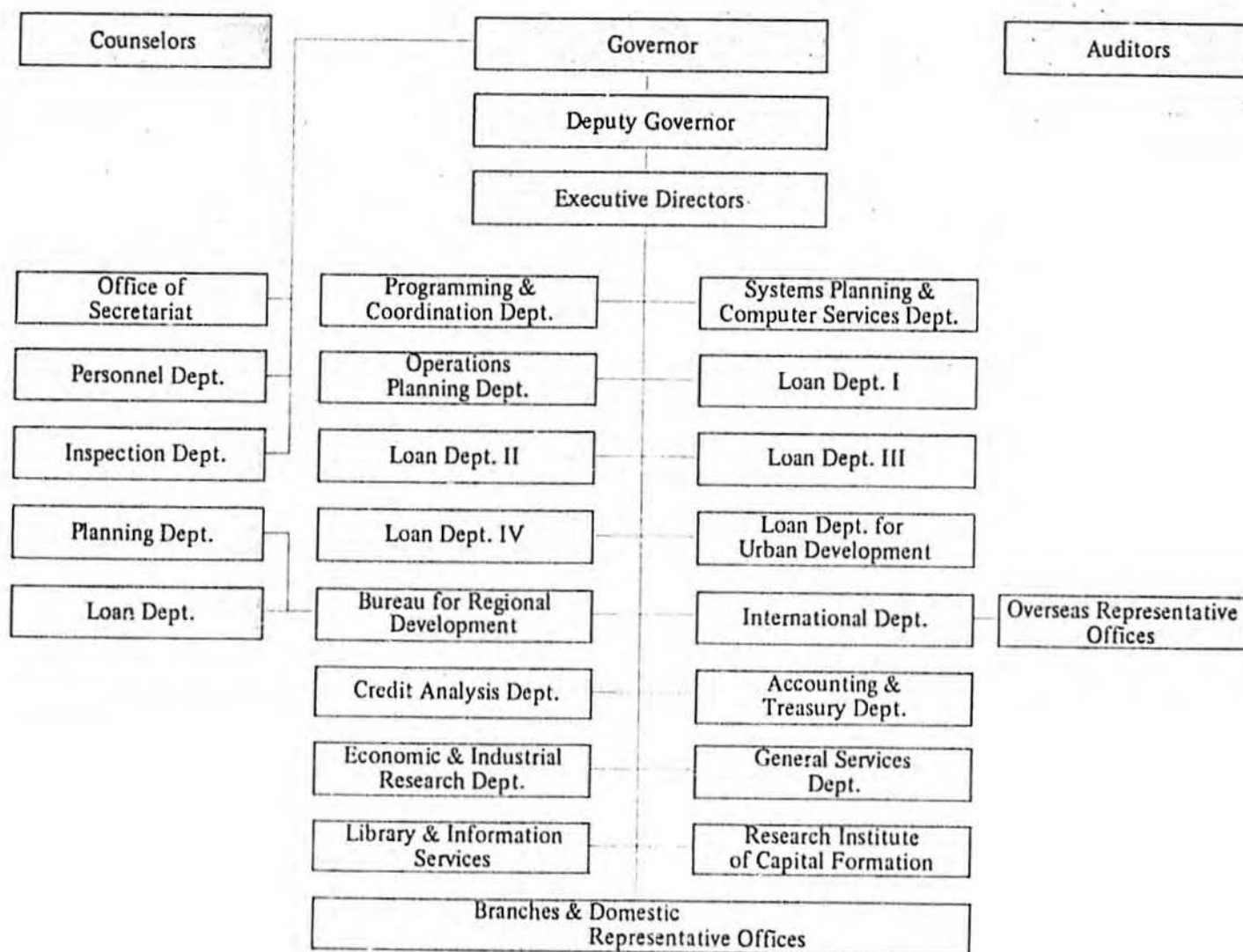
Auditors

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

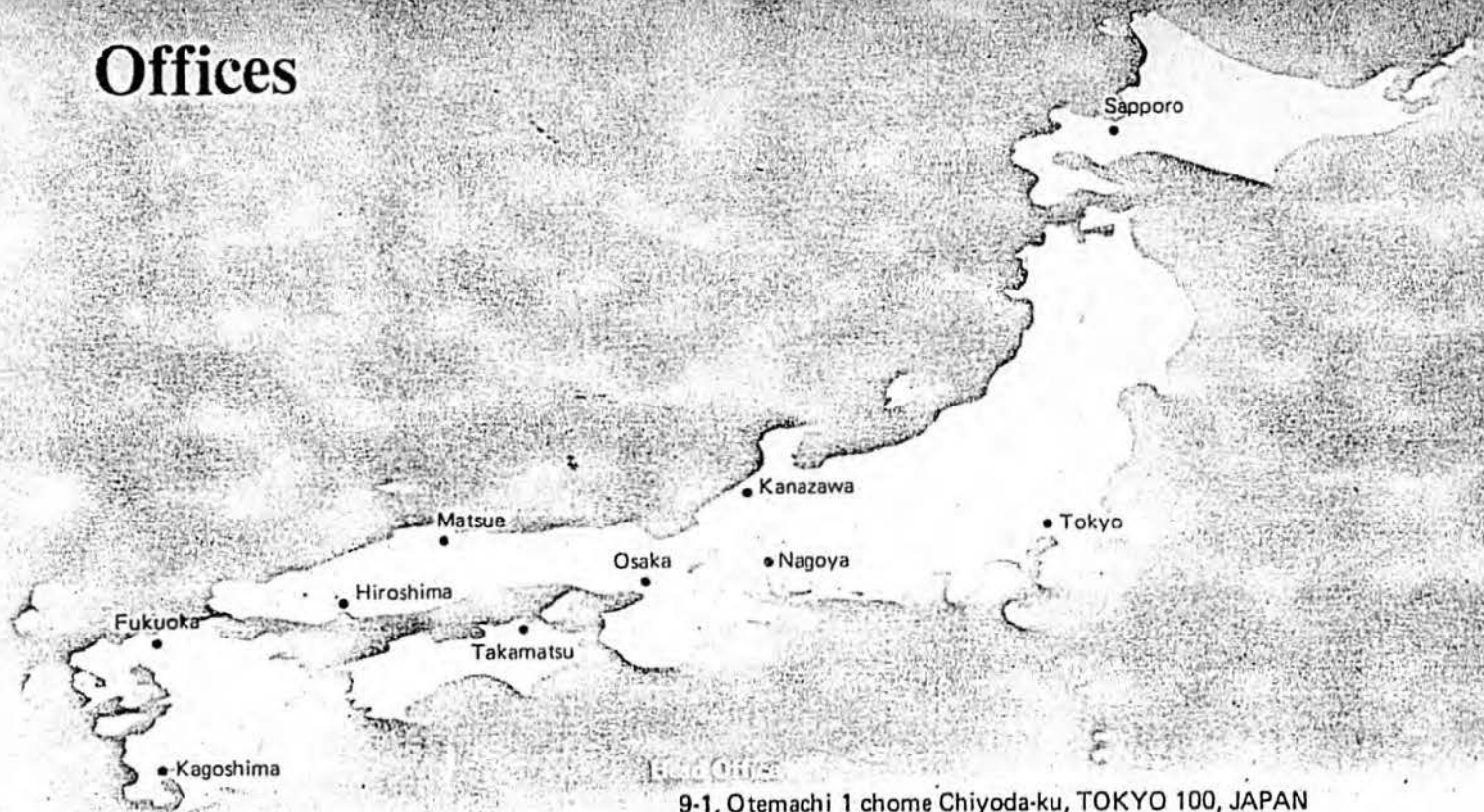
Counselors

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.

(as of May 31, 1975)



Offices



9-1, Otemachi 1 chome Chiyoda-ku, TOKYO 100, JAPAN

Telephone: (03) 270-3211

International Department

Cable Address: DEVEBANK TOKYO

Telex: J24343 DEVEBANK

Branches:

Osaka, Nagoya, Fukuoka, Sapporo, Takamatsu, Hiroshima
and Kanazawa

Representative Offices:

Kagoshima and Matsue

Washington, D.C. Suite 600, 1019-19th Street, N.W.

Washington, D.C. 20036, U.S.A.

Telephone: (202) 331-8696

Cable Address: DEVEBANK WASHINGTONDC

Telex: 440084

New York

Room 306, 71 Broadway

New York, N.Y. 10006, U.S.A.

Telephone: (213) 269-0527

Cable Address: DEVEBANKMIN NEWYORK

Telex: 421054

London

Clements House, 10/11 Wood Street

London, E.C. 2, England

Telephone: (1) 606-2629

Cable Address: JADEBANK LONDON-EC2

Telex: 888907

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
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.

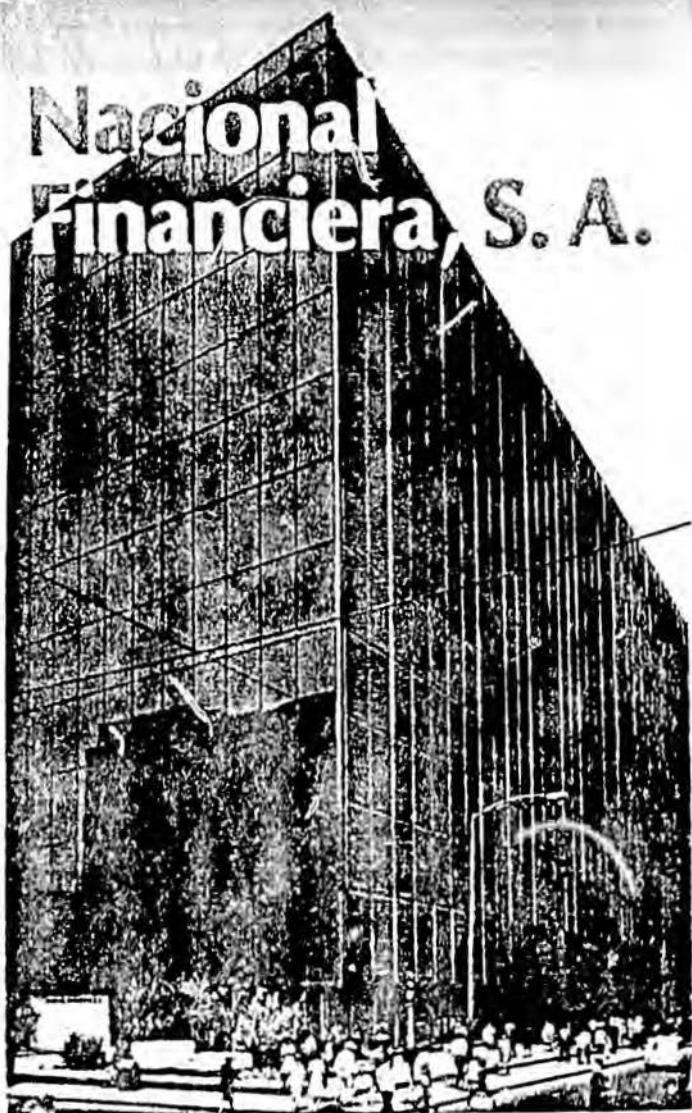
Capital Structure:

		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

Main Office:
Isabel la Católica 51
México 1, D. F.

Cable: NAFIN

Telex: 017 72 538

Representative Offices

1120 Connecticut Ave.
Suite 1140
Washington, D. C. 20036

Mexican Embassy
15-2 Nagata Cho, 2 Chome
Chiyoda-Ku, Tokyo

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 ³ / ₄ %
1978	100 ¹ / ₂ %
1979	100 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 debt	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)	
	(millions of pesos)							
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	<u>\$1,643.0</u>	<u>100.0%</u>

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	<u>\$2,830</u>

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
		<u>\$4,131.2(1)</u>	<u>100.0%</u>

(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 depository 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



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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, Com- munication	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, Compañía 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)	Freight Loaded and Unloaded(1)	
							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.