OFFERING CIRCULAR

DBSA
Development Bank
of Southern Africa

DEVELOPMENT BANK OF SOUTHERN AFRICA LIMITED

(Incorporated in The Republic of South Africa under the Development Bank of Southern Africa Act, 1997 of The Republic of South Africa)

South African Rand 7,500,000,000 Guaranteed Zero Coupon Notes due 2027

unconditionally and irrevocably guaranteed by The Republic of South Africa

Issue price: 2.69 per cent. in respect of South African Rand 5,000,000,000 Guaranteed Zero Coupon Notes due 2027

Issue price: 2.75 per cent. in respect of South African Rand 2,500,000,000 Guaranteed Zero Coupon Notes due 2027

The South African Rand 7,500,000,000 Guaranteed Zero Coupon Notes due 2027 (the "Notes") will be issued in bearer form in the denominations of South African Rand 5,000, South African Rand 50,000 and South African Rand 500,000 each. The Notes will not bear interest.

The Notes will mature on 31st December, 2027 at their principal amount but may be redeemed in whole at any time at their then redemption price together with accrued amortisation of the original issue discount in the event that South African taxes are imposed on payments on the Notes. See "Conditions of the Notes — Redemption and Purchase" below.

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

See "Investment Considerations" below for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes will initially be represented by a temporary global note (the "Global Note") which will be deposited with a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") on or about 11th August, 1997. The Global Note will be exchangeable, in whole or in part as provided therein, for definitive Notes in bearer form on and after the day which is 40 days after the date of issue of the Notes, upon certification as to non-U.S. beneficial ownership.

Hambros Bank Limited
Rand Merchant Bank Limited

ABN AMRO Hoare Govett
J.P. Morgan Securities Ltd.
Commerzbank Aktiengesellschaft
Rabobank International

SBC Warburg
A Division of Swiss Bank Corporation

Banque Bruxelles Lambert S.A.
Dresdner Kleinwort Benson
ING Barings
Norddeutsche Landesbank Girozentrale
WestMerchant
Bear, Stearns International Limited
HSBC Markets
Morgan Stanley Dean Witter
Prudential-Bache Securities
WGZ-Bank Westdeutsche Genossenschafts-Zentralbank eG

This Offering Circular is dated 7th August, 1997.

Development Bank of Southern Africa Limited ("DBSA" or the "Issuer") accepts responsibility for all the information contained in this document (other than the statements of fact set out in this document under the heading "The Republic of South Africa"). To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The statements of fact set out in this document under the heading "The Republic of South Africa" have been extracted from various publicly available information. The Issuer accepts responsibility that such information has been correctly extracted or summarised from such publicly available information.

This document does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers named under "Subscription and Sale" (the "Managers") to subscribe or purchase, any of the Notes in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and the Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or to U.S. persons except in accordance with Regulation S under the Securities Act.

The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this document, see "Subscription and Sale" below.

No person has been authorised to give any information or to make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. Neither the delivery of this Offering Circular nor any sale or subscription made hereunder shall under any circumstances create any implication that there has been no change in the information contained herein or in the affairs of the Issuer since the date hereof.

References to "South African Rand", "R" and "ZAR" in this document are to the lawful currency of The Republic of South Africa and those to "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America.

In connection with this offering, Hambros Bank Limited may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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Incorporation of Documents by Reference

The audited annual financial statements of the Issuer for the financial years ended 31st March, 1996 and 31st March, 1997 are hereby incorporated by reference. Copies of the audited annual financial statements of the Issuer are available free of charge at the office of the Paying Agent in Luxembourg.

Conditions of the Notes

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form.

The South African Rand 7,500,000,000 Guaranteed Zero Coupon Notes due 2027 (the "Notes", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of Development Bank of Southern Africa Limited (the "Issuer") are constituted by a Trust Deed dated 11th August, 1997 (the "Trust Deed") made between the Issuer and Hambros Trust Company Limited (the "Trustee") as trustee for the holders of the Notes (the "Noteholders"). Payments in respect of the Notes are unconditionally and irrevocably guaranteed by The Republic of South Africa (the "Guarantor") pursuant to the guarantee given by the Guarantor and dated 7th August, 1997 (the "Guarantee"). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 11th August, 1997 (the "Agency Agreement") made between the Issuer, the initial Paying Agents named therein and the Trustee are available for inspection during normal business hours by the Noteholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at 41 Tower Hill, London EC3N 4HA, England and at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Form, Denominations and Title

(1) The Notes are in bearer form, serially numbered, in the denominations of South African Rand 5,000, South African Rand 50,000 and South African Rand 500,000. Notes of one denomination may not be exchanged for Notes of another denomination.

(2) Title to the Notes will pass by delivery.

(3) The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Note as the absolute owner for all purposes (whether or not the Note shall be overdue and notwithstanding any notice of ownership, trust or other interest or writing on the Note or any notice of previous loss or theft of the Note).

2. Status

The Notes are direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, in respect of moneys borrowed but, in the event of insolvency, only to the extent permitted by applicable laws.

3. Guarantee

The payment of the applicable Redemption Price (as defined in Condition 7(2)) or, on final maturity, the principal in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed and these Conditions has been unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and unsecured obligations of the Guarantor and rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor in respect of moneys borrowed and guarantees by the Guarantor in respect of moneys borrowed by others.

4. Negative Pledge

(1) So long as any of the Notes remains outstanding the Issuer will ensure that no External Indebtedness (as defined in Condition 4(2)) of the Issuer or of any other person and no guarantee by the Issuer or any other person of any External Indebtedness will be secured by any Security Interest (as defined in Condition 4(2)) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including uncalled capital) of the Issuer (other than any such Security Interest securing External Indebtedness incurred, assumed or guaranteed by the Issuer as, or as part of, a Project Financing (as defined in Condition 4(2)) so long as the property over which such Security Interest is granted consists solely of assets or revenues of the project in relation to which the Project Financing is incurred) unless the Issuer shall, before or at the same time, take any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes and the Trust Deed are secured equally and rateably with the External Indebtedness or guarantee, as the case may be, by the Security Interest to the satisfaction of the Trustee; or

(b) such other Security Interest or other arrangement (whether or not including the giving of a Security Interest) is provided either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast) of the Noteholders.

(2) For the purposes of these Conditions:

(a) "External Indebtedness" means Indebtedness for Borrowed Money (as defined in Condition 10(2)) in the form of or represented by notes, bonds, debentures or other securities which are, or are intended to be, listed, quoted, ordinarily dealt in or traded on any recognised stock exchange, over-the-counter or other recognised securities market, and which is expressed, denominated or optionally payable (i) in a currency or currencies other than the lawful currency of The Republic of South Africa or (ii) in the lawful currency of The Republic of South Africa and more than 20 per cent. of the principal amount of which was initially sold to a person or persons resident outside The Republic of South Africa;

(b) "Group" means the Issuer and its Subsidiaries (as defined in Condition 14(6));

(c) "Project Financing" means any financing of all or part of the costs of the acquisition, construction or development of any project where the person or persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the sole source within the Group of repayment for the moneys advanced in relation to such financing;

(d) "Security Interest" means any mortgage, charge, lien, pledge or other security interest;

(e) any reference to any statute or any provision of any statute shall be a reference to that statute or provision as amended from time to time; and

(f) any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

5. Interest

The Notes do not bear interest, except that if any amount payable in respect of any Note is not paid in full on the due date for redemption of such Note, interest will accrue as provided in the Trust Deed on the unpaid amount at the rate of 12.5480 per cent. per annum from, and including, the due date for redemption to, but excluding, the date of payment. References in these Conditions to Redemption Price, principal or payments in respect of the Notes shall be deemed to include any interest which may be payable under this provision.

6. Payments

(1) Payment in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note at the specified office outside the United States of any of the Paying Agents.

(2) Payments will be made at the specified office of any Paying Agent outside the United States, at the option of the holder, by South African Rand cheque drawn on, or by transfer to a South African Rand account maintained by the payee with, a bank in The Republic of South Africa, subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

(3) A holder shall be entitled to present a Note for payment only on a Presentation Date and shall not, except as provided in Condition 5, be entitled to any interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 9):

(a) is or falls after the relevant due date or, if such due date is not or was not a Business Day in Johannesburg and London, is or falls after the next following such Business Day; and

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note is presented for payment and (unless paragraph (4) below applies), in the case of payment by transfer to a South African Rand account in The Republic of South Africa as referred to above, in Johannesburg.

"Business Day" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place.

(4) If a Note is presented for payment at a time when, as a result of differences in time zones, it is not practicable to transfer the relevant amount to an account as referred to above for value on the relevant Presentation Date, the Issuer shall not be obliged so to do but shall be obliged to transfer the relevant amount to that account for value on the first practicable Business Day in Johannesburg after the Presentation Date.

(5) The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain a Paying Agent having a specified office in London and at least two other Paying Agents having specified offices in separate European cities approved by the Trustee, one of which, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange shall so require, shall be Luxembourg. Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

7. Redemption and Purchase

(1) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 31st December, 2027.

(2) If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that (a) as a result of any change in, or amendment to, the laws or regulations of The Republic of South Africa or any political sub-division of, or any authority in, or of, The Republic of South Africa having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 6th August, 1997, on the final maturity of the Notes the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 and (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Notes, but not some only, at the following redemption prices (each, a "Redemption Price") provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were the Notes to mature on such earliest date:

If redeemed during the period from, and including,	**Redemption Price (expressed as a percentage of the principal amount of the Notes)**
11th August, 1997 to, and including, 30th December, 1997	2.750 per cent.
31st December, 1997 to, and including, 30th December, 1998	2.883 per cent.
31st December, 1998 to, and including, 30th December, 1999	3.245 per cent.
31st December, 1999 to, and including, 30th December, 2000	3.652 per cent.
31st December, 2000 to, and including, 30th December, 2001	4.110 per cent.
31st December, 2001 to, and including, 30th December, 2002	4.626 per cent.
31st December, 2002 to, and including, 30th December, 2003	5.207 per cent.
31st December, 2003 to, and including, 30th December, 2004	5.860 per cent.
31st December, 2004 to, and including, 30th December, 2005	6.595 per cent.
31st December, 2005 to, and including, 30th December, 2006	7.423 per cent.
31st December, 2006 to, and including, 30th December, 2007	8.354 per cent.
31st December, 2007 to, and including, 30th December, 2008	9.403 per cent.
31st December, 2008 to, and including, 30th December, 2009	10.583 per cent.
31st December, 2009 to, and including, 30th December, 2010	11.911 per cent.
31st December, 2010 to, and including, 30th December, 2011	13.405 per cent.
31st December, 2011 to, and including, 30th December, 2012	15.087 per cent.
31st December, 2012 to, and including, 30th December, 2013	16.980 per cent.
31st December, 2013 to, and including, 30th December, 2014	19.111 per cent.
31st December, 2014 to, and including, 30th December, 2015	21.509 per cent.
31st December, 2015 to, and including, 30th December, 2016	24.208 per cent.
31st December, 2016 to, and including, 30th December, 2017	27.246 per cent.
31st December, 2017 to, and including, 30th December, 2018	30.664 per cent.
31st December, 2018 to, and including, 30th December, 2019	34.512 per cent.
31st December, 2019 to, and including, 30th December, 2020	38.843 per cent.
31st December, 2020 to, and including, 30th December, 2021	43.717 per cent.

If redeemed during the period from, and including,	Redemption Price (expressed as a percentage of the principal amount of the Notes)
31st December, 2021 to, and including, 30th December, 2022	49.202 per cent.
31st December, 2022 to, and including, 30th December, 2023	55.376 per cent.
31st December, 2023 to, and including, 30th December, 2024	62.325 per cent.
31st December, 2024 to, and including, 30th December, 2025	70.146 per cent.
31st December, 2025 to, and including, 30th December, 2026	78.947 per cent.
31st December, 2026 to, but excluding, 31st December, 2027	88.854 per cent.

together with, in each case, accrued amortisation of the original issue discount calculated at an annual rate of 12.5480 per cent. of the Redemption Price for the period during which the redemption takes place from (and including) the first day of such period to (but excluding) the date fixed for redemption, on the basis of a 360-day year consisting of 12 months of 30 days each.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will, unless the relevant change or amendment is revoked or rescinded, apply on the final maturity of the Notes and cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

(3) The Issuer or any of its Subsidiaries may at any time purchase Notes in any manner and at any price and may surrender for cancellation, re-issue or re-sell any Notes so purchased. If purchases are made by tender, tenders must be available to all Noteholders alike.

(4) All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries and surrendered for cancellation will forthwith be cancelled and accordingly may not be re-issued or re-sold.

8. Taxation

(1) All payments in respect of the Notes and the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by, or on behalf of, The Republic of South Africa, or any political sub-division of, or any authority in, or of, The Republic of South Africa having power to tax, unless such withholding or deduction of Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

   (a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with The Republic of South Africa other than the mere holding of the Note; or

   (b) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not it is in fact the case, that day to have been a Presentation Date.

(2) In these Conditions, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Noteholders by the Issuer in accordance with Condition 13.

(3) Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. Prescription

Notes will become void unless presented for payment within 10 years from the Relevant Date (as defined in Condition 8) in respect of the Notes.

10. Events of Default

(1) The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their then current Redemption Price, together with the accrued amortisation of the original issue discount (calculated in accordance with Condition 7(2) but with the substitution of a reference to "the date on which the Notes shall become immediately due and repayable" for a reference to "the date fixed for redemption"), in any of the following events ("Events of Default"):

(a) if the Issuer fails to perform or observe any of its obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(b) if any Indebtedness for Borrowed Money of the Issuer (not being the whole or part of a Project Financing), having an aggregate principal amount equal to or greater than U.S.$20,000,000 (or its equivalent in any other currency or currencies) becomes due and payable before its stated maturity by reason of acceleration following a default or event of default (howsoever described) or is not paid when due (or within any applicable grace period); or

(c) if an encumbrancer takes possession of, or a liquidator, judicial manager, trustee, administrator, administrative receiver, receiver or similar officer is finally appointed in respect of all or a substantial part of the business or assets of the Issuer (other than assets or revenues solely the subject of a Project Financing), or the Issuer is placed under judicial management or distress or any form of execution is levied or enforced upon or sued out against such assets and the appointment of such encumbrancer, liquidator or other officer as aforesaid is not revoked or terminated, such judicial management is not terminated or such distress or other execution is not discharged, in each case, within 45 days; or

(d) if the Issuer or the Guarantor becomes unable to pay its debts as they fall due or suspends making payments or declares a moratorium with respect to all or any class of its External Indebtedness; or

(e) (i) if the Issuer convenes a meeting of its creditors or proposes or makes any scheme or arrangement or composition with, or any assignment for the benefit of, its creditors; or

(ii) if a resolution of the Issuer or its directors is passed or an order is made for the winding up of the Issuer; or

(f) if anything analogous to any of the events specified in paragraph (c), (d) or (e) above occurs under the laws of any applicable jurisdiction and is not (in the case of (c) above) revoked, terminated or discharged within the period referred to therein; or

(g) if it becomes illegal for the Issuer to comply with, or it repudiates, its payment obligations under the Notes and such illegality or repudiation is not withdrawn, revoked or otherwise cured within 30 days; or

(h) if any governmental authorisation, permit or licence necessary for the performance of any payment obligation of the Issuer as set forth in these Conditions is denied or revoked for whatever reason or fails to be given or to become in full force and effect or to remain valid and subsisting and is not reinstated or replaced to the satisfaction of the Trustee within 30 days; or

(i) if the Guarantee ceases for any reason to be in full force and effect or the Guarantee is repudiated by the Guarantor and is not reinstated or replaced to the satisfaction of the Trustee within 30 days,

PROVIDED, in the case of any Event of Default, other than those described in sub-paragraphs (e) and (i) above, that the Trustee shall have certified to the Issuer and the Guarantor that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

(2) For the purposes of these Conditions, "Indebtedness for Borrowed Money" means any indebtedness or liability, whether present or future, actual or contingent, for or in respect of money borrowed or raised by whatever means (including, without limitation, acceptances, bills of exchange (not being bills used in the normal course of trade finance), without recourse debt factoring, instalment sale financing

and conditional sale financing but excluding moneys raised through the issue of shares or options or warrants to subscribe for shares).

11. Enforcement

(1) The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Notes unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding, and (b) it shall have been indemnified to its satisfaction.

(2) No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. Replacement of Notes

Should any Note be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

13. Notices

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require, in one daily newspaper published in Luxembourg approved by the Trustee. Any notice shall be deemed to have been given on the date of publication in both newspapers or, if so published more than once, on the date of the first such publication. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort*. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

14. Meetings of Noteholders, Modification, Waiver, Authorisation and Substitution

(1) The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

(2) The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.

(3) The Trustee may also agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution, subject to the Notes being unconditionally and irrevocably guaranteed by the Guarantor pursuant to a guarantee in substantially the terms of the Guarantee (or such other substituted guarantee as previously agreed by the Trustee), of a Subsidiary of the Issuer, any Holding Company of the Issuer or any Subsidiary of such Holding Company in place of the Issuer as principal debtor under the Trust Deed and the Notes and in the case of such a substitution the Trustee may in its absolute discretion agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such substitution and, where applicable, change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(4) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities and discretions for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(5) Any modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders and any substitution and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

(6) For the purposes of these Conditions, the terms "Subsidiary" and "Holding Company" shall have the meanings respectively ascribed thereto by sections 1(3) and 1(4) of the Companies Act, 1973 of The Republic of South Africa.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

16. Further Issues

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

17. Governing Law and Submission to Jurisdiction

The Trust Deed and the Notes are governed by, and will be construed in accordance with, English law.

The Issuer has in the Trust Deed irrevocably agreed for the benefit of the Trustee and the Noteholders that the High Court of Justice in England is to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Notes and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "Proceedings") may be brought in the High Court of Justice in England.

The Issuer has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the High Court of Justice in England and any claim that any Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed that a judgment in any Proceedings brought in the High Court of Justice in England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

The Issuer has in the Trust Deed irrevocably and unconditionally appointed Norose Notices Limited, (Reference Z813101), for the attention of the Director of Administration, at the address of its registered office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of it ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

The Issuer has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise with respect to the Trust Deed and the Notes any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

The Issuer currently has no Subsidiaries and the Events of Default set out in Condition 10 will not apply to any Subsidiary which it may have in the future.

Use of Proceeds

The net proceeds of the issue of the Notes, estimated to amount to South African Rand 184,500,000, will be used by the Issuer for the financing of long term infrastructure projects.

Guarantee of The Republic of South Africa

The following is the text of the guarantee of The Republic of South Africa.

This Guarantee by The Republic of South Africa (the "Guarantor") of the South African Rand 7,500,000,000 Guaranteed Zero Coupon Notes due 2027 of Development Bank of Southern Africa Limited (the "Notes" and the "Issuer" respectively) is given on and subject to the following conditions:

1. Guarantee

The Guarantor unconditionally and irrevocably guarantees to the trustee for the time being (the "Trustee") for the holders from time to time of the Notes (the "Noteholders") the payment by the Issuer of the applicable Redemption Price (as defined in Condition 7(2) of the Conditions of the Notes) or, on final maturity, the principal in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed constituting the Notes (the "Trust Deed", which term shall include the same as modified from time to time) and the Conditions of the Notes as and when the same become due and payable.

This Guarantee constitutes the direct, general and unconditional obligation of the Guarantor.

This Guarantee ranks and will rank equally with all other unsecured and unsubordinated obligations of the Guarantor for moneys borrowed and guarantees by the Guarantor in respect of moneys borrowed of others.

2. Continuing Security

This Guarantee is to be a continuing guarantee and shall remain in full force and effect until all the payment obligations of the Issuer under the Conditions of the Notes and the Trust Deed have been fully performed, discharged and satisfied and is in addition to and not in substitution for any other rights which the Noteholders or the Trustee may have under or by virtue of the Notes or the Trust Deed and may be enforced by the Trustee without first having recourse to any such rights and without first taking any steps or proceedings against the Issuer.

3. No Exoneration from Liability

The Guarantor shall be liable as if it were the principal obligor in respect of the Notes and not merely a surety and the Guarantor shall not be exonerated or discharged from liability under this Guarantee by time being given to the Issuer by the Noteholders or the Trustee or by anything which the Noteholders or the Trustee may omit or neglect to do or by any other dealing or thing (other than a full settlement of the Issuer's obligations under the Notes and the Trust Deed) which, but for this provision, might operate to exonerate or discharge the Guarantor from its obligations herein contained.

4. No Limitation of Obligations

The obligations of the Guarantor hereunder shall not be affected by any legal limitation, disability, incapacity or other circumstances resulting to the Issuer whether or not known to the Trustee, by any invalidity in, or irregularity or unenforceability of, the obligations of the Issuer under the Conditions of the Notes or the Trust Deed or by any change in the constitution of or any amalgamation or reconstruction of the Issuer.

5. Payments

The Guarantor covenants with the Trustee that all payments in satisfaction of its obligations under this Guarantee shall be made in accordance with, and subject to observance by the Noteholders of, the provisions of Condition 6 of the Conditions of the Notes and shall be made without set-off or counterclaim and free and clear of and without withholding or deduction for or on account of any present or future Taxes (as defined in Condition 8(1) of the Conditions of the Notes) imposed or levied by, or on behalf of, The Republic of South Africa, or any political subdivision of, or any authority in, or of, The Republic of South Africa having power to tax, unless the Guarantor is compelled by law to make payment subject to deduction of any of such Taxes in which event the provisions of Condition 8(1) of the Conditions of the Notes shall apply *mutatis mutandis* to this Guarantee which shall be subject to, and include the provisions of, the Conditions of the Notes (including, without limitation, Conditions 8 and 11 thereof) where the same are applicable to the Guarantor and the Guarantor agrees to be bound by such provisions accordingly.

6. Waiver

The Guarantor hereby waives any requirement that the Noteholders or the Trustee should first make demand upon or seek to enforce any claim against the Issuer before seeking to enforce this Guarantee. This Guarantee will not be discharged except by the complete performance of the payment obligations contained in the Notes, the Trust Deed and this Guarantee.

Until all sums of money due or owing by the Issuer to the Noteholders and the Trustee under the Conditions of the Notes and the Trust Deed have been paid in full, the Guarantor waives all rights of subrogation and indemnity against the Issuer and agrees not to claim any set-off or counterclaim against the Issuer or to claim or prove in competition with the Noteholders or any of them or the Trustee in the event of the bankruptcy, insolvency or liquidation of the Issuer or to have any benefit of or any share in any other guarantee or security now or hereafter held by the Trustee for the benefit of the Noteholders and/or the Trustee.

7. No Security

The Guarantor hereby undertakes to the Trustee that it has not taken or received, and that until all moneys, obligations and liabilities due, owing or incurred by the Issuer under the Notes and the Trust Deed have been paid and performed in full, it will not take or receive, any security or lien from the Issuer in respect of the granting of this Guarantee.

8. Undertaking; Negative Pledge

The Guarantor hereby undertakes to the Trustee that so long as any of the Issuer's payment obligations under the Notes and the Trust Deed remain to be performed, it will obtain or cause to be obtained and maintained in full force and effect all consents which may from time to time be necessary for the continued due performance by the Guarantor of all of its obligations under this Guarantee.

So long as any of the Notes is outstanding the Guarantor shall not create any Encumbrance over all or any of its present or future revenues or assets to secure any present or future External Indebtedness (as defined in Condition 4(2) of the Conditions of the Notes) of the Guarantor without securing the outstanding Notes equally and rateably with such External Indebtedness. "Encumbrance" shall mean any mortgage, charge, pledge, lien or other arrangement creating security other than any security on goods or other assets provided to or acquired by the Guarantor and securing a sum not greater than the purchase price (together with interest and other related charges) of such goods or assets and any related services.

9. Notices

Any notice to or demand on the Guarantor may be given in writing and may be (a) personally delivered, (b) transmitted by postage prepaid registered airmail or (c) transmitted by facsimile, confirmed by postage prepaid registered airmail, addressed to the Guarantor as follows:

The Director General: Finance
Private Bag X115
Pretoria 0001
Republic of South Africa
Facsimile: 27-12-21-9580

Attention: Chief Director — Asset and Liability Management.

The date on which any notice or demand hereunder is deemed to be given shall be (i) the date of actual delivery of such notice or demand to the office of the Director General: Finance of the Guarantor if delivered personally, (ii) the date fourteen days after posting if transmitted by airmail, or (iii) the date of transmission in complete and legible form as confirmed by the recipient to the sender if transmitted by facsimile, whichever shall first occur. The Guarantor may change its address for the purposes hereof by notice to the Trustee.

10. Governing Law and Jurisdiction

Except as to the authorisation relating to the giving of this Guarantee by the Guarantor, this Guarantee shall be governed by, and will be construed in accordance with, English law.

The Guarantor irrevocably agrees for the benefit of the Trustee that the High Court of Justice in England is to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee and that accordingly any suit, action or proceedings arising out of or in connection herewith (together referred to as "Proceedings") may be brought in the High Court of Justice in England.

The Guarantor irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the High Court of Justice in England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the High Court of Justice in England shall be conclusive and binding upon the Guarantor and may be enforced in the courts of any other jurisdiction. Nothing in this paragraph shall limit any right to take Proceedings against the Guarantor in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

The Guarantor irrevocably and unconditionally waives and agrees not to raise with respect to this Guarantee any right to claim sovereign or other immunity from jurisdiction and any similar defence, and subject to section 3 of the State Liability Act 20 of 1957 irrevocably and unconditionally consents to the giving of any relief or the issue of any process.

If a judgment of any such court in respect of any such action is expressed in a currency other than South African Rand, payment of an amount under such judgment shall discharge the obligations of the Guarantor under this Guarantee only to the extent of the equivalent of that amount in South African Rand at the exchange rate at the time of such payment. The remaining obligations of the Guarantor not discharged pursuant to the immediately preceding sentence shall constitute a separate and independent obligation of the Guarantor from its other obligations, shall give rise to a separate and independent cause of action against the Guarantor and shall continue in full force and effect notwithstanding any such judgment.

The Guarantor hereby appoints the High Commissioner of The Republic of South Africa to the United Kingdom from time to time as its authorised agent upon whom process and other judicial documents may be served in any action arising out of or relating to the matters provided for in this Guarantee that may be instituted in England and the Guarantor hereby designates the address from time to time of the High Commission of The Republic of South Africa, in London, presently located at Trafalgar Square, London WC2N 5DT, as the address to receive such process and other judicial documents; and the Guarantor hereby undertakes to take, from time to time and so long as any of the Notes shall remain outstanding (as defined in the Trust Deed), any and all action (including the execution and filing of any and all documents and instruments) that may be necessary to effect and to continue such appointment and designation in full force and effect. If at any time the High Commissioner of The Republic of South Africa to the United Kingdom (or any successor person holding the office with the same function) should, for any reason, be unable to continue to act as such authorised agent, the Guarantor shall immediately appoint, and it hereby undertakes to take any and all action that may be necessary to effect the appointment of, a successor authorised agent in England, and the Issuer shall notify the Trustee of such successor agent. Nothing in this paragraph 10 shall affect the right of the Trustee to serve process in any manner otherwise permitted by law.

Thus signed and executed by the Minister of Finance duly authorised thereto in terms of Section 35(1) of the Exchequer Act 1975 (Act No. 66 of 1975) as amended and having considered and determined that it is in the public interest so to do.

Date: 7th August, 1997

IN WITNESS WHEREOF this Guarantee has been executed as a Deed Poll by the Guarantor and delivered on 7th August, 1997.

EXECUTED as a deed under seal by the Minister of Finance of The Republic of South Africa in the presence of: } LS

Witness's
Signature: ....

Name: ....

Address: ....

Description of Development Bank of Southern Africa Limited

Overview

The Development Bank of Southern Africa was established in 1983 to perform an economic development function. The transformation of the constitutional and economic dispensation of South Africa by virtue of the Constitution of The Republic of South Africa, 1993 (Act No. 200 of 1993), has resulted in the reconstitution and incorporation of the Issuer as the Development Bank of Southern Africa Limited, pursuant to the Development Bank of Southern Africa Act 13 of 1997 promulgated on 25th April, 1997 (the "Act"). The Act exempts the Issuer from the provisions of the Companies Act 61 of 1973, although the Minister of Finance may, by regulation, apply any provision of the Companies Act 61 of 1973 to the Issuer. No such regulations have been issued to date.

The Issuer is a development finance institution with its primary purpose being to promote economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from national or international private and public sectors for sustainable infrastructural projects and programmes in South Africa and the Southern African Region (the "Region").

Organisation

The Issuer has only one shareholder, the Government of The Republic of South Africa. The shareholder exercises overall authority, but may delegate to the Board of Directors all its powers except the power to issue or transfer shares, to appoint directors and to approve the payment of dividends. The Board of Directors controls the business of the Issuer and directs the operations of the Issuer, subject to certain exceptions. The Chief Executive Officer is the executive officer and legal representative of the Issuer, and is responsible for the management of the operations of the Issuer.

The Issuer has the power to borrow money provided the amount owing at any time in respect of moneys borrowed does not, without the approval of the shareholders, at any time exceed the limitations set by regulation. No limitations have as yet been set by regulation.

History

DBSA was established in 1983 by way of a treaty between The Republic of South Africa and the then "independent" territories of Transkei, Bophuthatswana, Venda and Ciskei (the "Homelands"). At that time it was intended to become the main channel for concessional development finance in South Africa, covering virtually all development sectors apart from housing. Although its credibility in the broader South African community was hampered by the perception that it had been created to bolster the system of apartheid, DBSA soon established an independent approach in which economic realities, rather than politics, shaped its approaches and actions. DBSA became increasingly sensitive to the necessity of involving communities in all aspects of development projects.

By 1993, after 10 years of existence, DBSA had extended development loans to its clients totalling in excess of R4-billion. This amount was disbursed mainly to Infrastructure (in urban and rural areas) (68 per cent.), Entrepreneurial Development (21 per cent.), Human Resource Development (10 per cent.) and Policy, Information, Development Planning and Institution Building (1 per cent.).

In 1994, South Africa's first democratic elections and a significant change in Government policy by the new Government brought about major changes in the environment within which the Issuer operated. With the demise of the Homelands, the South African Government became the sole shareholder of DBSA. Secondly, and far more importantly, the philosophy of reconstruction and development and human-centred development became, for the first time, a powerful guiding philosophy of Government policy. Thirdly, the whole institutional environment in which the Issuer had previously operated, changed with the new provincial dispensation and the demise of many of the previous development corporations which had been significant borrowers from the Issuer.

These factors and others sparked the realisation that the entire development financing institutional system, and the individual institutions within this system, were in need of significant transformation. In the case of DBSA, this led to the appointment by the Government of a Transformation Task Team in late 1994, with the mandate of examining the role and functioning of the institution and making recommendations for its transformation.

The Task Team reported in May 1995, and recommended that the institution be transformed into a development financing institution concentrating on infrastructure with an extended mandate to the Southern African Development Community (SADC), with its activities in other sectors being transferred out to other institutions which were to be created or transformed for such purpose. In addition, the reconstituted DBSA, although capitalised by Government, would not receive any annual grants from Government and would therefore have to concentrate increasingly on mobilising private sector and foreign concessional funding for its operations.

DBSA's transformation

DBSA was therefore faced, in the second half of 1995, with a major transformation in which both its role in society and its internal organisation were to be significantly changed. It had to re-align its loan book to reflect its new focus on infrastructure and it had to do this within a system where new borrowers were emerging in the form of second- and third-tier Government. DBSA had to make the necessary provisions to accommodate (or warehouse) its existing programmes and projects in sectors that will eventually be taken over by other institutions, such as Entrepreneurial Development and Rural Finance.

Internally, the Issuer was faced with the necessity of re-structuring itself to be effective and to make meaningful provision for the empowerment and advancement of previously-disadvantaged groups in order to become truly representative of the community which it sought to serve. As the major repository of development skills in the country, the Issuer had to ensure the retention and development of a pool of expertise. Above all, DBSA had to do this in a credible and transparent manner.

When the previous Board of Directors' term of office expired, a new interim Board of Directors was appointed. The Interim Board embarked on a world-wide search for a new Chief Executive, which culminated in the appointment of Dr Ian Goldin. Dr Goldin joined DBSA at the end of April 1996. He reaffirmed DBSA's commitment to assisting the poor even though it would be seeking partnerships with commercial banks as part of its co-funding drive. With the promulgation of the Act, the Interim Board has been replaced by a new Board as from 1st August, 1997.

The importance of infrastructure

Infrastructure is the basic foundation upon which all development occurs. However, when it is considered in the context of economic and social development, a development institution cannot consider only the technical, engineering and construction aspects of infrastructure. Does a project provide what a community really needs? Can the community afford to pay for the services provided? How can the community be empowered to participate in the management of an infrastructure asset? Can the project be designed in such a way that local materials and labour are used in its construction? Is the project environmentally sustainable? These, and many more questions have to be answered before a meaningful decision can be taken about a particular infrastructure project. For this reason, DBSA employs not only economists and project managers, but also financial specialists and social specialists and investment decisions are never taken purely on financial or technical grounds.

Only by following this approach can human needs and requirements be incorporated and the sustainability of projects ensured. DBSA is conscious of the requirement that its prime task is to enhance the quality of life for the communities that it serves.

DBSA's involvement in infrastructure

Financing of infrastructure has always been the mainstay of DBSA's activities. Cumulatively, over R7 billion had been invested in infrastructure projects as at the end of the 1995/1996 financial year. Particular attention is given to these projects' development impact on the local socio-economic environment to ensure maximum income opportunities for local communities. Consultants' designs and specifications are adapted to accommodate smaller contracts and provide training and credit facilities so that emerging and local contractors can participate.

The Future

As a focused, specialised development finance institution, DBSA is expanding its role in endeavouring to create a better life for all in South Africa and the Region. Increasingly, it will strive to mobilise private sector and other development funding resources to promote private/public sector partnerships in the provision of infrastructure.

Board of Directors

*Ms. Lucienne Abrahams
*Ms. Ann Bernstein
Mr. Frank Chikane
Mr. Brian de Lacy Figaji
*Dr. Ian Andrew Goldin, *Chief Executive Officer*
*Mr. Christo Ferro Liebenberg
*Mr. Johannes Bhekumuzi Magwaza
Ms. Renosi Mokate
Mr. Wiseman Lumkile Nkuhlu
Ms. Hixonia Nyasulu
*Dr. Robin Allan Plumbridge
Ms. Maria Da Conceicao Das NC Ramos
Mr. William Malema Ramoshaba
Mr. Zamindlela Titus

As of the date hereof, formal acceptance to sit on the Board has been received by members whose names have been marked with*.

Capitalisation

Capitalisation of Development Bank of Southern Africa Limited

The following table sets out the audited capital and reserves of the Issuer as at 31st March, 1996 and 31st March, 1997:

	31st March, 1997 R million	31st March, 1996 R million
Capital and reserves		
Share capital	200	200
Reserves	899	797
Development Fund	3,792	3,792
Shareholders' interest	4,891	4,789
Borrowings:		
Repayable after five years:		
Guaranteed by the SA Government	403	289
Not Guaranteed	1,055	700
Repayable between one and five years:		
Guaranteed by the SA Government	190	511
Not Guaranteed	545	37
Repayable within one year:		
Guaranteed by the SA Government	475	—
Not Guaranteed	348	321
Total borrowings	3,016	1,858
Cash resources	428	390

(1) As at 31st March, 1997 the authorised share capital of the Issuer was 200,000 shares of R10,000 each i.e. R2.0 billion and the issued share capital of the Issuer was 20,000 shares of R10,000 each i.e. R200 million

(2) The authorised share capital of the Issuer was increased to R5,000,000,000 with the promulgation of the Development Bank of Southern Africa Act in April 1997. The authorised capital of the Issuer has therefore increased to R5.0 billion (R200 million was paid up in 1983).

(3) There has been no material change in the capitalisation of the Issuer since 31st March, 1997.

(4) This Capitalisation Table has not been adjusted to reflect this issue of Notes.

Summary Financial Statements of the Issuer

Extracts from the Audited Financial Results

Income Statement
for the years ended 31st March

	1997 R'000	1996 R'000
Interest income from development activities	566,645	464,446
Interest income from investments	42,293	48,008
Less: Interest expense	329,069	213,834
Net interest income	279,869	298,620
Non interest income	1,383	205
	281,252	298,825
Less: Technical assistance grants	4,437	5,743
Less: Specific and general risk provisions	44,000	44,000
Net income	232,815	249,082
Less: Operating expenditure	130,201	135,188
Auditors' remuneration	970	658
Governors' emoluments	—	2
Directors' emoluments	499	367
Depreciation	1,776	2,307
Other operating expenses	126,474	131,224
Foreign exchange losses	482	630
Surplus for the year	102,614	113,894

Balance Sheet
at 31st March

	1997 R'000	1996 R'000
Capital employed		
Share capital	200,000	200,000
Development fund	3,792,344	3,792,344
Reserves	899,318	796,704
Shareholders' interest	4,891,662	4,789,048
Donor contribution fund	1,121	76
Medium and long-term financing	2,667,523	1,817,820
Short-term financing	347,653	40,201
	7,907,959	6,647,145
Employment of capital		
Fixed assets	40,563	37,229
Development loans	7,337,057	6,157,360
Development investments	85,980	81,293
Investment	27,463	—
Net current assets	416,896	371,263
Current assets	458,370	403,491
Cash, deposits and tradable securities	428,605	389,846
Receivables	29,765	13,645
Current liabilities	41,474	32,228
Accounts payable	13,184	18,419
Accrued interest	28,290	13,809
	7,907,959	6,647,145

Cash Flow Statement
for the years ended 31st March

	1997 R'000	1996 R'000
Net cash inflow from operating activities	129,626	226,051
Interest received from development activities	457,271	460,406
Interest received on investments	42,072	50,362
Interest paid	(234,189)	(159,684)
Other operating expenditure paid	(135,528)	(125,033)
Net cash outflow from development activities	(1,138,014)	(1,186,011)
Development loan disbursements	(1,377,712)	(1,240,830)
Development loan principal repayments	249,386	142,006
Development investments	(4,687)	(81,293)
Donor contribution funds disbursed	(564)	(151)
Technical assistance grants paid	(4,437)	(5,743)
Net cash outflow from investment activities	(5,110)	(1,177)
Purchase of fixed assets	(5,273)	(1,177)
Proceeds from sale of fixed assets	163	—
Net cash inflow from financing activities	1,052,257	745,640
Donor contribution funds received	1,609	–
Investments made	(26,109)	–
Short-term financing raised	307,452	35,173
Medium- and long-term financing repaid	(293,399)	–
Medium- and long-term financing raised	1,062,704	710,467
Net increased in cash, deposits and tradable securities	38,759	(215,497)
Cash, deposits and tradable securities at beginning of year	389,846	605,343
Cash, deposits and tradable securities at end of year	428,605	389,846

The Republic of South Africa

The factual information set out below is based on material obtained from various publicly available sources and is believed to be accurate, but has not been independently verified by the Issuer, Ernst & Young or the Managers.

1. Geography

The Republic of South Africa ("South Africa") covers an area of approximately 474,000 square miles, which is approximately one-eighth the size of the United States and five times the size of the United Kingdom.

2. Population

According to the latest Census (1996) the current population of South Africa is 37.9 million, increasing at approximately 2.4 per cent. annually. The International Bank for Reconstruction and Development estimates the level of urbanisation at close to 60 per cent. of the total population. The largest concentrations of population in South Africa are in KwaZulu Natal and Gauteng provinces, the latter of which includes Johannesburg and is the area in which most economic and industrial activity takes place.

3. Government

The first multi-racial elections were held in April 1994 and gave the African National Congress ("ANC") 63 per cent. of the vote, the National Party ("NP") 20 per cent. and the Inkatha Freedom Party ("IFP") 10 per cent. Of the 400 parliamentary seats, the ANC has 252, the NP 82, the IFP 43 and the other parties 23. The cabinet comprises predominantly ANC members although some of the other parties are represented.

The process of political reform, commenced in 1990, has brought South Africa increasing international acceptance. Virtually all of the financial and trade sanctions that were imposed against South Africa have been removed, resulting in increased trade to and from South Africa and renewed international interest in investment in the country. South Africa is a member of the Southern African Development Community (SADC), the Southern African Common Monetary Area, the Southern African Customs Union, as well as having qualified membership in terms of the Lomè Convention. In addition, South Africa is a signatory to the GATT Agreement and participated in the recent Uruguay round.

In the Constitution of the Republic of South Africa, 1996, Act No. 108 of 1996 (the "Constitution"), certain fundamental rights are entrenched, including equality, freedom of expression, freedom of association, freedom of movement, access to the courts and access to information.

Provisions in the Constitution concerning property include the following:

(a) no deprivation of any rights in property shall be permitted otherwise than by law; and

(b) property may only be expropriated for public purposes and then only on the basis that just and equitable compensation is paid.

4. The South African Economy

In the 1970s and the 1980s, South Africa's economic performance was characterised by falling and slow economic growth and double digit inflation alongside a highly skewed distribution of income and high and rising unemployment rates. This performance was affected by the economic and financial sanctions imposed in 1985. Although progress has been recorded in the 1990s, as inflation fell and output growth strengthened after the recession at the turn of the decade, the real economy remains somewhat lacklustre despite the easing of political uncertainties after the national election in 1994 and the termination of trade and financial sanctions. This reflects the continued effect of the long-standing structural rigidities that underlay the steady deterioration in economic performance during the 1970s and the 1980s, notably inflexibilities in the unit cost of labour, a restricted supply of skilled labour, high and rising rates of effective protection, increasing government consumption expenditure, and a highly skewed distribution of access to economic opportunities among the population.

In mid-1996, the authorities outlined a new medium-term framework of financial and structural policies in its Growth, Employment and Redistribution Strategy ("GEAR") to address the underlying obstacles to more buoyant growth and employment and to bolster confidence in the ZAR.

The GEAR was presented to Parliament on 14th June, 1996. It firmly reasserted the authorities' market-oriented and consensual approach to policy. Referring to projections reflecting current policy, it underscored the urgency of further action to raise labour-intensive economic growth to address inherited social inequities and the "unemployment crisis". It rejected the introduction of a national minimum wage and an expansionary fiscal policy to achieve these goals, and saw the real depreciation of the South African Rand as growth-enhancing, if sustained by a firm anti-inflationary monetary policy. The GEAR targeted real Gross Domestic Product ("GDP") growth of 6 per cent. in 2000 and the creation of more than 400,000 jobs in that year, and offered five new sets of policy proposals — in addition to existing commitments to privatisation and the reorientation of public spending to the poor — to achieve those goals:

- Faster fiscal consolidation, targeting a deficit of 4 per cent. of GDP in 1997/98, falling to 3 per cent. of GDP in 1999/2000 — ½ percentage point of GDP lower than previously targeted for each year;
- A labour market policy of "regulated flexibility", strengthening regulatory protection for workers, scaling down wage floors for trainees and to reflect regional labour market conditions and firm size, broadening official powers to withhold the extension of wage agreements negotiated at sector level, and introducing a payroll levy to fund training;
- Accelerated tariff reductions to reduce imported input and consumption goods prices, while avoiding job losses in sensitive sectors;
- An accelerated depreciation scheme for new investments in manufacturing, and a tax holiday for new projects in approved areas and industries, based on a human resource remuneration to value-added ratio;
- Further exchange control liberalisation in the context of a gradual process: the cap on foreign assets obtained through swaps was raised from 5 per cent. to 10 per cent. of total assets for eligible institutions, institutional investors were allowed to place 3 per cent. of net inflows during 1995 in foreign assets, and restrictions on foreign investor access to domestic credit were eased.

(a) *Business cycle, fixed investment, consumer spending:* The South African economy emerged from the longest recession since the Second World War in May 1993. While initially robust, the economic upturn faltered in early 1994, largely because of uncertainties surrounding the political transition. In the second half of 1994 GDP-growth regained momentum when it became apparent that the transition had been established peacefully and an economic growth rate of 2.7 per cent. for 1994 was registered. Aided by the easing of political uncertainties after the national elections in 1994 and by the cautious stance of policies adopted by the new administration, economic performance and investor sentiment strengthened markedly in 1995 and real GDP increased by 3.4 per cent. Growth in output was supported particularly by the performance of the secondary sectors, with output growing by 7.6 per cent. in the manufacturing sector during 1995 compared to 2.5 per cent. in 1994. Adverse weather conditions, the mining of lower-grade gold-bearing ore and frequent disruption of gold-mine production led to a decline in the level of economic activity of the primary sector in 1995. Real GDP grew by 3.1 per cent. in 1996, with the strong recovery of agricultural output after the 1994/95 drought offsetting slower growth of non-agricultural output. The decline in the growth of non-agricultural output during 1996 reflected the tightening of monetary policies in 1995 that was implemented to combat re-emergent inflationary pressures, as well as ongoing restructuring in the mining sector and uncertainties associated with the depreciation of the ZAR. An increase in private fixed investment and a strong and broadly based rise in non-gold export volumes have been the forces behind the present recovery. The fall in the gold price in the first half of 1997 (from a level of over U.S.$365 per ounce as at year end of 1996) is likely to detract from GDP-growth in 1997. However, the impact is likely to be limited if current price levels (approximately U.S.$320 per ounce) are maintained.

Capital expenditure on a few major projects was mainly responsible for the revival in fixed investment in 1993, but the increase in investment became more widespread in 1994. Investment in machinery and equipment and transport equipment increased rapidly, while investment in construction works and buildings rose less sharply. Overall, real gross domestic fixed investment increased by 10.3 per cent. in 1995 compared with 8.7 per cent. in 1994. The lower level of overall domestic economic activity in 1996 was also reflected by slower growth of 6.8 per cent. in gross domestic fixed investment.

Consumer spending rose at a considerably slower rate than in previous recoveries, probably because of a combination of slow growth in real after-tax earnings and unwillingness of households to commit future income during a period of political transition. In the first half of 1995 consumer demand was stronger as uncertainties began to recede. However, in the light of continued low growth in households' after tax incomes, an already high ratio of household debt to income, and high real interest rates, the present rate of growth in consumer spending of around 3 per cent. is unlikely to accelerate during the present cycle.

This recovery differs from previous ones in that there has been virtually no increase in overall demand from the Government. Before the political transition there had already been remarkable restraint in the Government's real consumption expenditure and in the first half of 1995 real Government consumption expenditure actually declined and in 1995 real Government consumption expenditure grew by 0.3 per cent. compared to 4.2 per cent. in 1994. This trend is expected to continue, reflecting the authorities' firm commitment to the fiscal consolidation in the GEAR.

(b) *Balance of Payments:* For a period of nine and a half years the balance of payments was characterised by substantial net outflows of capital not related to reserves; in total, capital amounting to ZAR 51.7 billion left the country from 1985 up to the second quarter of 1994. Economic growth was consequently constrained because surpluses had to be maintained on the current account of the balance of payments to compensate for these outflows. In 1994 international capital movements turned strongly in South Africa's favour, making it possible for the country to again run a deficit on the current account of the balance of payments. The net capital inflow which had commenced after the election of the Government of National Unity in April 1994 continued in the first half of 1995 and amounted to approximately ZAR 18.6 billion over the twelve month period from July 1994 to June 1995. Over the same period, capital inflow exceeded the current account deficit by ZAR 10.6 billion, allowing the net foreign reserves position to strengthen, and the Reserve Bank to reduce its own outstanding short-term borrowings from ZAR 6.7 billion to ZAR 1.6 billion.

The transition from surplus to deficit on the current account of the balance of payments was the direct result of an increase in investment spending which translated into rapidly rising imports which outweighed the volume and value of merchandise exports. The physical volume of imports is slowing down as a number of large projects which had a large import content (and which will moreover soon start to generate export receipts) reach completion.

The current account deficit had improved from a peak of ZAR 12.9 billion on an annualised basis in the second quarter of 1996 to ZAR 4.7 billion in the fourth quarter. For 1996 as a whole, the deficit was ZAR 8.5 billion (ZAR 10.2 billion for 1995).

The strengthening of the current account in 1996 reflects the deceleration of domestic demand and the depreciation of the ZAR. Non-gold mineral and manufacturing exports grew strongly, boosted by some large export-oriented projects (including aluminium and steel) which came into production during 1995–96. Manufacturing exporters appear to have used the depreciation to reduce their dollar export prices in order to raise market share, and their penetration into Southern African markets has been particularly marked. Accordingly, the current account deficit declined from 2.1 per cent. of GDP in 1995 to 1.6 per cent. in 1996, despite merchandise import volume growth in excess of 10 per cent. and continued declines in the production and exports of gold. The large short-term capital inflows registered in 1995 were sharply reversed, until the latter part of 1996, as confidence faltered. However net inflows of long-term capital continued throughout the year, albeit at much reduced levels compared with 1995, including the proceeds of new issues of sovereign bonds in the German, UK and US markets and borrowing by the non-financial private sector. Net capital inflows amounted to ZAR3.6 billion in 1996.

(c) *Exchange Rate:* The ZAR stability from 1995 was brought to a halt in February 1996 as a number of factors triggered an outflow of portfolio investments and short-term funds. From the end of 1995 to the end of 1996, the nominal exchange rate of ZAR depreciated by about 28 per cent. However, by the end of 1996 the worst appeared to be over for the ZAR as the economic fundamentals (increasing reserves and a better current account position) improved. During the first quarter of 1997 the ZAR has appreciated by 5.5 per cent. against the U.S. dollar.

The following developments have contributed to the historic lack of confidence in the ZAR:

- larger than expected deficits on the current account of the balance of payments;
- a sluggish inflow of foreign capital and the low level of South African foreign reserves;
- uncertainty about the further relaxation of exchange controls and the timing thereof;
- an upward adjustment in inflation expectations; and
- uncertainty about the Government's ability to implement its macro-economic plan.

The Government's point of view is still that the remaining exchange controls should be abolished gradually. The Government is also of the view that South Africa, as a developing country, should not be a net exporter of capital. It follows that exchange controls can be abolished only if there is a reasonable degree of certainty that the country will experience a greater inflow than outflow of money. Such expectations can be justified only when:

- noticeable progress is being made with the implementation of the Government's macro-economic programme;
- the privatisation of State assets gets under way; and
- unrest and crime are reduced to more acceptable levels.

The further relaxation of exchange controls on 1st July, 1997 reflects the progress towards these goals.

Investor sentiment began to turn in favour of South Africa in early 1997, due to greater confidence in the authorities' policy stance — particularly fiscal consolidation and public asset restructuring — and signs that the external current account deficit was falling more rapidly than expected towards the end of 1996 coincided with strengthened capital flows to emerging markets. The improved sentiment was reflected in a 9 per cent. appreciation of the ZAR in nominal effective terms between end-April 1996 and end-April 1997 as well as a decline in money market yields of more than 100 basis points. By end-April, the rand was 7 per cent. lower in real effective terms than when the depreciation began a year earlier, close to the levels of the first half of 1995.

(d) *Inflation:* In 1989, after nearly two decades of high inflation, South African policy makers broke decisively with earlier policies and set the country on a path towards structurally lower inflation. Monetary policy was tightened and the budget deficit, whilst still large, was funded in a non-inflationary way. Inflation, which exceeded 20 per cent. in 1986, stood at 6.3 per cent. in October 1995. The South African economy still carries an inflationary bias as a result of rising real unit labour costs, a relatively large deficit in the public sector budget and a lack of aggressive competition in domestic markets.

For 1996 as a whole, inflation stood at 7.4 per cent. compared to 8.7 per cent. in 1995.

The monetary authorities continue to adopt guidelines for the annual growth of M3, namely 6–10 per cent. since 1995, but these guideline ranges are not regarded as formal targets. The upper limit accommodates anticipated growth in real GDP of 2–3 per cent., while the lower limit reflects the medium- to long-term inflation objectives. According to the monetary authorities, persistent monetary expansion, well in excess of the ZAR during 1996, had raised inflationary pressures. These pressures had been countered during 1996 by increases in the bank rate. Although money and credit growth has not decelerated yet, the authorities expect significant slowdown in monetary and credit expansion during the second half of 1997, partly due to high household indebtedness.

(e) *Statistical overview:*

Gross Domestic Product at constant 1990 prices (R millions)	**1995**	**1996**
Agriculture, forestry and fishing	11,726	14,755
Mining and quarrying	23,094	22,773
Manufacturing	64,351	64,581
Electricity, gas & water	12,332	12,942
Construction	7,376	7,506
Wholesale & retail trade, catering & accommodation	39,687	41,167
Transport, storage & communications	20,459	21,109
Finance, insurance, real estate & business services	39,100	40,406
Community, social & personal services	4,853	4,948
Less		
Imputed financial service charges	8,840	9,189
General government	35,991	36,551
Other producers	5,641	5,767
GDP at factor cost	255,770	263,316
Prices (percentage increase)		
Consumer price index	8.7	7.4
Production price index	9.6	6.9

Balance of International Payments (R millions)	**1995**	**1996**
Merchandise exports	81,289	98,818
Net gold exports	22,537	26,294
Merchandise imports	97,962	116,326
Balance on current account	(10,157)	(8,479)
Long-term capital movements	15,125	4,885
Short-term capital movements	4,109	(1,029)
Change in net gold and foreign exchange reserves	9,077	(4,623)

National Budget (R millions)	**1995/96 Actual**	**1996/97 Provisional**	**1997/98 Budget**
Revenue	126,081	146,261	161,976
Expenditure	154,526	177,519	186,746
Budget deficit	**28,445**	**31,258**	**24,770**
Budget deficit as % of GDP	5.7%	5.6%	4.0%

Public Debt (R millions)	**End 1995/96**	**End 1996/97**
Total debt	278,928	309,987
As % of GP	56.0%	55.7%

Sections
Preliminary Import Statistics* (January–December) (R millions)

Live animals; animal products	938	1,138
Vegetable products	2,684	2,931
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	1,184	1,103
Prepared foodstuffs; beverages, spiritus and vinegar; tobacco and manufactured tobacco substitutes	2,030	2,598
Mineral products	8,988	11,573
Products of the chemical or allied industries	10,355	12,682
Plastics and articles thereof; rubber and articles thereof	4,472	4,811
Raw hides and skins, leather, furskins and articles thereof; saddlery and harness, travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	583	648
Wood and articles of wood, wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	751	868
Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard of paper or paperboard; paper and paperboard and articles thereof	2,780	2,959
Textiles and textile articles	3,776	4,243
Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	724	932
Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	1,258	1,623
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin	1,275	1,661
Base metals and articles of base metal	4,866	5,338
Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	30,041	37,118
Vehicles, aircraft, vessels and associated transport equipment	13,274	7,136

Sections *continued* **Preliminary Import Statistics* (January–December) (R millions)**	**1995**	**1996**
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	3,733	4,612
Miscellaneous manufactured articles	1,102	1,478
Works of art, collectors' pieces and antiques	54	60
Other unclassified goods and balance of payments adjustments	134	111
Special classification provisions: Original equipment components/ parts for motor vehicles	2,200	9,900
Grand Total	**97,205**	**115,523**

Sections **Preliminary Export Statistics* (January-December) (R millions)**		
Live animals; animal products	1,233	1,313
Vegetable products	3,476	5,665
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	208	250
Prepared foodstuffs; beverages, spiritus and vinegar; tobacco and *manufactured tobacco substitutes*	3,676	5,073
Mineral products	13,383	15,724
Products of the chemical or allied industries	6,248	8,115
Plastics and articles thereof; rubber and articles thereof	1,390	1,599
Raw hides and skins, leather, furskins and articles thereof; saddlery and harness, travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	926	1,199
Wood and articles of wood, wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	888	946
Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard of paper or paperboard; paper and paperboard and articles thereof	3,966	3,750
Textiles and textile articles	2,396	2,696
Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	121	191
Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	551	727
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin	9,757	38,546
Base metals and articles of base metal	14,870	19,327
Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	6,000	6,601
Vehicles, aircraft, vessels and associated transport equipment	3,975	4,294
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	432	608
Miscellaneous manufactured articles	1,581	1,941
Works of art, collectors' pieces and antiques	57	41
Other unclassified goods and balance of payments adjustments	27,957	7,494
Special classification provisions: Original equipment components/ parts for motor vehicles	0	1
Grand Total	**102,090**	**126,100**

Sections *continued*

Preliminary Export Trade Statistics* (January–December) (R millions)		
Africa	13,916	17,437
Europe	31,284	38,608
America	7,674	11,024
Asia	19,736	26,123
Oceania	1,183	1,822
Other unclassified goods and balance of payments adjustments	26,864	30,585
Ships'/Aircraft stores	1,432	500
Grand Total	**102,090**	**126,100**

Preliminary Import Trade Statistics* (January–December) (R millions)		
Africa	2,855	3,386
Europe	46,929	54,548
America	15,002	18,737
Asia	29,291	34,540
Oceania	1,785	3,093
Other unclassified goods and balance of payments adjustments	1,342	1,219
Ships'/Aircraft stores	—	—
Grand Total	**97,205**	**115,523**

Gold & Foreign Reserves (R millions as at 31/12)		
Gold	5,401	5,903
Foreign exchange reserves	10,261	4,396

Registered Unemployed as at 30 September		259,546	276,598
Remuneration to September per worker – Index 1990 = 100	*public*	1,794	2,024
	private	1,822	2,032

*South African trade data are compiled by the Department of Customs and Excise. Given the large number of ports of entry into South Africa, the figures are subject to revision and delay. For this reason the figures may not be finalised for a considerable time after the initial release date. This is the case with many economic statistics, not just those out of South Africa. Many GDP figures are revised years after their release.

It should be noted that South African trade data as reproduced above is preliminary and is only revised one year on from the date of its first release.

(*f*) *Trends within the various economic sectors – Historic:*

	1995	**1996**
Primary sectors	(7.5)	8.0
Agriculture	(15.0)	26.0
Mining	(3.0)	(1.5)
Secondary sectors	6.5	1.0
Manufacturing	7.5	0.5
Tertiary sectors	3.5	3.0
Commerce	6.5	3.5
Transport, storage and communication	5.0	3.0
Financial services	3.5	3.5
Total	3.5	3.0
Non-agricultural sectors	4.5	2.0

The GEAR specifies that the fundamental goal of trade and industrial policies should be to enhance the competitive capacity and employment absorption of manufacturing. To this end, considerable progress has been made in rationalising the foreign trade regime in the context of the Uruguay Round since end 1993. Quantitative restrictions have been replaced with tariffs, the number of tariff lines has been halved and the last import surcharge was abolished in October 1995. The import weighted tariff rate had fallen to 10 per cent. in 1996 from 11 per cent. in 1995 and the authorities considered accelerating the scheduled reductions in tariffs by applying the tariffs scheduled for 1999 during 1997. An early abolition of the export subsidy programme was effected in July 1997.

Elements of industrial policy, complementary to the restructuring process induced by trade liberalisation, which have been introduced are stimulation of development corridors, small business development programmes and manufacturing development programmes through *inter alia* an accelerated depreciation scheme for all new investments in manufacturing (implemented in July 1996) and an investment tax incentive scheme (implemented in October 1996). The latter provides tax holidays of up to six years for new firms according to location and industry criteria set at the discretion of the Ministers of Finance and of Trade and Industry, as well as employment criteria based on the share of remuneration to value added ratio.

South Africa is also pursuing various trade negotiations, including negotiations with the Southern African Development Community and the European Union as well as a number of bilateral negotiations.

Trends within the various economic sectors — Expected:

The primary sector is expected to show continued real growth in the next two years. This growth rate will be adversely affected by any drought which will have a negative impact on overall production figures. Such a negative event is likely to be offset — at least partially — by the expected weaker rand against most major currencies improving the penetration of international markets by the agricultural sectors.

The mining sector is currently adversely affected by the lower gold prices and the continued overwhelming position of the gold mines within the mining sector. This should, however, be partially offset by the expected weaker rand and the expected good performance of the economies of the major industrialised countries in the next two years.

The secondary sector is expected to perform well within the next two years and show stronger real growth than the primary sector. Manufacturing is seen to benefit from higher investment, the weaker rand and the abolition of the sanctions campaign against South Africa. Offsetting these positive trends, to a certain extent, is a more demanding labour dispensation which could be implemented within the next two years and which could increase the cost structure of the manufacturing sector.

The tertiary sector is also expected to show stronger real growth than the primary sector within the next two years. This will reflect the changes taking place in the financial sector as a result of this sector once again being fully integrated into the world financial system and the changes taking place within this sector on a global scale. Furthermore, this sector is benefiting from the improved tourist trade between South Africa and the rest of the world.

(g) Budgetary outlook for the current year

Information on the course of the 1997/98 Budget

Exchequer Issues and Receipts

Total revenue and grants in June 1997 amounted to R11.832 billion, 20.7 per cent. higher than in June 1996. This brings the total revenue and grants for the first quarter of 1997/98 to R33.769 billion, 13 per cent. higher than in the comparable period in the previous financial year.

Total Exchequer requisitions during June 1997 (amounts requested but not necessarily spent) amounted to R14.654 billion, 31 per cent. higher than in June 1996. Total Exchequer requisitions for April to June 1997 amounted to R46.625 billion, 14.4 per cent. higher than the same period in 1996/97.

Since there are no clear trends from year to year in the monthly Exchequer requests and revenue collections, projections on the outcome of the 1997/98 national budget should not be inferred from the above figures at this stage.

Financing

Total financing for the period April to June 1997 amounted to R18.502 billion and is shown in the table below together with the total budgeted amount for 1997/98.

	April-June 1997 (R million)	Budgeted 1997/98 (R million)
Government bonds and debentures:		
Market sales	8,358.9	27,002.0
Amortised discount on zero coupon bonds(1)	446.5	700.0
Short term (net):		
Corporation for Public Deposits(2)	1,374.1	0.0
Tender Bills	1,737.9	2,000.0
Transfer from IMF account at SA Reserve Bank	345.3	1,381.2
Proceeds from sale of state assets	1,165.4	516.0
Transfer from SFF and NSPF(3)	1,250.0	1,250.0
Foreign Loans	3,823.8	4,000.0
Total Financing	**18,501.9**	**36,849.2**

(1) The discount on zero coupon bonds is treated on an accrual basis. The discount is written off over the life of the loan and provided for annually as interest expenditure. At the same time a corresponding amount is added to new loans received by the Exchequer.

(2) Amounts invested in the CPD fluctuate during the course of the financial year.

(3) SFF: Strategic Fuel Fund
NSPF: National Supplies Procurement Fund.

5. Privatisation

In the latter half of the 1980s privatisation was high on the National Party Government's agenda with the publication of the White Paper on Privatisation. Amid much controversy, and in spite of protests from the major trade unions, the Government did succeed in a public listing of Iscor (Iron and Steel Corporation) in 1989.

After the unbanning of the ANC in 1990, privatisation was removed from the agenda. However, in this period almost all the public business enterprises were commercialised. Notable amongst these were Transnet (transportation), Eskom (electricity), Telkom (telecommunications), Alexkor (diamonds), Safcol (forestry), Aventura (holiday resorts) and Denel (defence). Commercialisation has changed the management, business character and profitability of these enterprises, and resulted in a significant reduction in employment in public enterprises.

Since the elections in April 1994 and South Africa's re-entry into the global economic environment, privatisation (restructuring of state assets) has once again reappeared on the economic agenda. The definition of privatisation has been broadened to include both divestiture of state assets and non-divestiture privatisation, for example, concessions, leases etc. The Government's approach is to balance the interests of all stakeholders affected by privatisation: unions, employees, management, consumers, investors and the Government itself.

Much debate surrounds the delegations of authority for privatisation. As a first step, committees to oversee the privatisation of each enterprise will be established. Each committee will comprise the Ministries for Public Enterprises, Finance, the Trade and Industry Ministry and the Chairperson of the Public Enterprise concerned to establish the guidelines for privatisation of each enterprise. The Cabinet has published a Green Paper entitled "Guidelines to Restructure State Assets".

Following the privatisation of six radio stations in 1996/97, a 30 per cent. stake in Telkom, the telephone utility, was sold in April 1997 for U.S.$1.3 billion to a foreign consortium, subject to the retention of its monopoly for five years. A further 10 per cent. is to be sold to promote "black empowerment". The sale of 30 per cent. of Telkom's shareholding in 1997 was the first major privatisation initiative by the Government. The bulk of the proceeds will remain in the company to finance additional investment. Plans for the sale of a small domestic airline and airports were well advanced by April 1997 and reviews of privatisation prospects for other companies, including the national airline and electricity and port utilities, are continuing. The intention is that use of the proceeds would vary from case to case, but funds accruing to the Government would be used predominantly to retire public debt.

Investment Considerations

Prior to making an investment decision, prospective purchasers of the Notes should carefully read the entire Offering Circular. Purchasers should consider, among other things, certain considerations, including those set out below, with respect to an investment in a South African-based entity not normally associated with investments in the securities of issuers incorporated in certain other jurisdictions.

1. Social and Political Risks

South Africa is undergoing a period of unprecedented social and political change which has been accompanied by violence and social unrest in certain areas. One of the main reasons for this unrest was addressed by the democratic election in April 1994 of the new Government. There is no assurance that the Government will be able to accommodate various political groups or address the social problems in South Africa in order to bring this violence and social unrest under control.

2. Economic Risks

(a) Economic Policy

In the April 1994 elections, the ANC won 63 per cent. of the vote. In the past, the ANC has espoused socialist policies, including the nationalisation of certain sectors of the economy. More recent ANC policy statements have indicated that the ANC now favours a mixed economy.

(b) Economy

A significant portion of South African Gross Domestic Product is represented by mining and related activities. The South African economy is, therefore, particularly susceptible to changes in the world prices of gold and other minerals as these represent a majority of South African exports. In addition, agricultural production is a significant element in South Africa's economy and the occurrence of a drought in 1991 and 1992 had a substantial adverse effect on the economy. The improvement of the drought situation in South Africa since 1993 has contributed to the recovery of the agricultural sector.

(c) Economic Growth

Notwithstanding the significant deceleration in the growth rate of the non-primary sectors of the economy, strong growth in the agricultural sector and the non-gold-mining industry has helped ensure that the total real Gross Domestic Product maintained a growth rate of 3.1 per cent. during 1996, against the 3.4 per cent. Gross Domestic Product achieved in 1995. The growth in real Gross National Product was held back by a relatively sharp increase in the real value of net factor payments to non-residents, but still accelerated from 3 per cent. in 1995 to 3.5 per cent. in 1996. Taking population growth into account, the Gross National Product per capita increased by 1.5 per cent. in 1996. This was the third consecutive rise in real income per capita. No assurance can be given that such rises will continue.

(d) Inflation

For 1996 as a whole, inflation stood at 7.4 per cent., compared to 8.7 per cent. in 1995. This decline in inflation can be attributed to slower growth in nominal labour cost per unit of production. Other factors that exerted downward pressure on overall price inflation were the consistent counter-inflationary monetary policies, reductions in tariffs on imported goods, declines in food prices, as well as a relatively stable exchange value of the ZAR until the middle of February 1996. The return of an upward bias in measured inflation since the second quarter of 1996 posed a challenge of policy-makers to prevent second round effects in wages and prices from occurring, hence a tight monetary policy to counter this trend as well as the depreciating ZAR.

(e) Balance of Payments

The current account deficit had improved from a peak of ZAR 12.9 billion on an annualised basis in the second quarter of 1996 to ZAR 4.7 billion in the fourth quarter. For 1996 as a whole, the current account deficit was estimated at ZAR 8.5 billion, compared with a deficit of ZAR 10.2 billion in 1995. As a ratio of Gross Domestic Product, the deficit declined from 2.1 per cent. in 1995 to 1.6 per cent. in 1996. This improvement was brought about by a substantial increase in the physical quantity of exported goods and in the value of South Africa's net exports of gold, reflecting the strong influence of the depreciation of the ZAR which started in February 1996. The net inflow of capital in 1996 was not sufficient to finance the deficit on the current account, with the result that the net gold and other foreign reserves of the Republic of South Africa declined by ZAR 4.6 billion over the year. In 1996 the gross gold and other reserves amounted to ZAR 16.8 billion at the end of the year, compared to ZAR 18.2 billion in 1995.

(f) Growth, Employment and Redistribution

In 1996 the Government announced their economic strategy for the next five years. The focus of the proposed plan is the creation of jobs and is also a programme of economic reform to address this fundamental challenge. The Government believes that this can only be achieved through sustained higher growth of the economy. The Government's vision is a 6 per cent. growth rate per annum and 400,000 additional jobs per year by the end of the century. The Government's programme puts in place an integrated set of macro-economic policies with objectives to enable the Government to deliver on commitments previously made in the Reconstruction and Development Programme. Such programme consists of a medium term strategy which aims to bridge the gap between the present constrained economic environment and an improved growth and employment performance in the period up to 2000, while strengthening the competitive capacity of the economy in the long term. No assurance can be given that the Government's policy will achieve its objectives in this area.

(g) The Fiscus

The public sector borrowing requirement amounted to ZAR 21.5 billion in the first nine months of fiscal 1996/7, or ZAR 1.0 billion more than the borrowing requirement in the corresponding period of the preceding year. As a ratio of Gross Domestic Product, the borrowing requirement came to 5.2 per cent. in the said duration of fiscal year 1996/7, which was fractionally lower than the 5.5 per cent. in 1995/6. The net result of the higher than budgeted revenue and expenditure was a deficit before borrowing and debt repayment of ZAR 20.9 billion in the first ten months of 1996/7. This represents 68.2 per cent. of the budgeted deficit for the whole year, and is higher than the 54.7 per cent. of the same duration for the previous fiscal year.

3. Currency Risks

Although the dual exchange rate system, consisting of a commercial and financial ZAR, was abolished on 13th March, 1995, there are at present still restrictions on capital movements by South African residents. Prospective purchasers of the Notes should note that the relatively high yield of ZAR-denominated Notes also reflects the expectations of the market participants with regard to the political and financial situation in South Africa. A negative change in the exchange rates of the ZAR against other currencies may impair the value of the investment of non-ZAR-based investors.

South African Taxation

The comments below are intended as a general guide to the current position under South African law. Persons who are in any doubt as to their tax position should consult their professional advisers.

Nature of the original issue discount

The original discount to the face value of the Notes will be treated as interest for tax purposes and will be deemed to accrue to the Noteholder on a day to day basis until the Noteholder disposes of the Note or until maturity. The day to day basis is calculated on a yield to maturity basis determined by reference to the cost of acquisition of the Note by the relevant Noteholder. Such calculation will also take account of any interest actually paid on the Notes, or any gain or loss arising on the transfer of the Note during the relevant year of assessment.

Persons Qualifying for Exemption from Taxes

Any interest paid or which is deemed to accrue in respect of the Notes will be exempt from any taxes or withholdings of whatsoever nature ("Taxes") imposed or assessed by the South African Government if it is received by or accrues to (i) any natural person who is not ordinarily resident in South Africa or in Botswana, Lesotho, Namibia or Swaziland (a "Neighbouring Country") nor carries on business in South Africa and *who was physically absent from South Africa for at least 183 days in aggregate during the year of assessment* in which such interest is received by or accrued or (ii) a company which is managed and controlled outside South Africa and the Neighbouring Countries provided that such interest is not effectively connected with a business carried on by that company in South Africa or any Neighbouring Country. For such purposes, a company includes an incorporated association, corporation or other body corporate.

Persons who do not Qualify for Exemption from Taxes

Profits or gains which are of a capital nature are generally not subject to tax, and income, profits and gains which are of a revenue nature are subject to tax in South Africa only if they are derived from a source within, or deemed to be within, South Africa. Interest is of a revenue nature and will be regarded as being from a South African source if the contract giving rise to the loan is concluded in South Africa and the principal amount of the loan is paid to the borrowers in South Africa. The recipient of the interest would be liable to pay such tax and there is no obligation on the borrower to withhold any portion of the interest on account of such taxes.

Accordingly, to the extent that the contracts relating to the issue of the Notes are concluded out of South Africa and subscribers for the Notes pay the issue price for the Notes to, or for the account of, the Issuer outside South Africa, interest payable on the Notes should generally not be subject to South African tax.

However, by virtue of an amendment to the Income Tax Act 1962 which came into effect on 1st July, 1997, interest from a country other than South Africa will be deemed to be from a South African source if it accrues to or is received by:

(i) a resident (defined as being a natural person ordinarily resident in South Africa or a person other than a natural person which has its place of effective management in South Africa), unless such interest arises from and is effectively connected to the business activities of a substantive business enterprise conducted by such resident through a permanent establishment in any country other than South Africa, where such permanent establishment is suitably equipped for conducting the principal business of such substantive business enterprise; or

(ii) a person (other than a resident) arising from the activities carried on by such person through a permanent establishment situated in South Africa.

This new provision would not affect the tax position of non-residents who qualify for the exemption referred to above.

Subscription and Sale

Hambros Bank Limited, Rand Merchant Bank Limited, ABN AMRO Bank N.V., Commerzbank Aktiengesellschaft, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., J.P. Morgan Securities Ltd., Swiss Bank Corporation, Banque Bruxelles Lambert S.A., Bear, Stearns International Limited, Dresdner Bank Aktiengesellschaft, ING Bank N.V., Midland Bank plc, Morgan Stanley & Co. International Limited, Norddeutsche Landesbank Girozentrale, Prudential-Bache Securities (U.K.) Inc., West Merchant Bank Limited and WGZ-Bank Westdeutsche Genossenschafts-Zentralbank eG (the "Managers") have, pursuant to a Subscription Agreement dated 7th August, 1997, agreed jointly and severally with the Issuer to subscribe and pay for (i) South African Rand 5,000,000,000 principal amount of the Notes at an issue price of 2.69 per cent. of such principal amount less a selling concession of 0.125 per cent. of such principal amount and (ii) the remaining South African Rand 2,500,000,000 principal amount of the Notes at an issue price of 2.75 per cent. of such principal amount less a selling concession of 0.125 per cent. of such principal amount. The Issuer will also pay to the Managers a combined management and underwriting commission of 0.125 per cent. of the principal amount of the Notes. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to the issue of the Notes. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to U.S. persons. Each Manager has agreed that it will not offer, sell or deliver any Note within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of Notes in the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented and agreed that (i) it has not offered or sold and, prior to the expiry of six months from the closing date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offer of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

No action has been, or will be, taken by the Issuer or the Managers that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither the Offering Circular nor any circular, prospectus, form of application, advertisement or other material, may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

General Information

1. The issue of Notes was approved by Dr. Ian Goldin, Chief Executive Officer, such power having been delegated to him pursuant to resolutions of the Board of Directors of the Issuer passed on 20th March, 1997 and 17th April, 1997. The Guarantee was given pursuant to section 35 of the Exchequer Act of The Republic of South Africa.

2. Neither the Issuer nor the Guarantor is involved in any litigation, arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as it is aware, having made all reasonable enquiries, are any such proceedings pending or threatened.

3. There has been no adverse change in the condition, results of operations or general affairs (financial or otherwise) of the Issuer which is material in the context of the issue of the Notes since 31st March, 1997.

4. Application has been made to list the Notes on the Luxembourg Stock Exchange. In connection with the listing application copies of the constitutional documents of the Issuer and the legal notice relating to the issue of the Notes will be lodged prior to listing with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents may be inspected and copies thereof obtained on request.

5. So long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a paying agent in Luxembourg where a copy of the constitutional documents of the Issuer and a copy of the Budget of the Guarantor (and a copy of the Trust Deed (incorporating the form of the Notes), the Guarantee and the Agency Agreement) may be inspected and copies of the most recent audited annual financial statements of the Issuer obtained free of charge during usual business hours on any weekday (except Saturday and public holidays). The Issuer does not publish consolidated financial statements. However, if the Issuer does in the future publish consolidated financial statements, copies of such consolidated financial statements may be obtained free of charge during usual business hours on any weekday (except Saturday and public holidays) from the paying agent in Luxembourg.

6. The Notes in definitive form will bear the following legend:

   "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

7. The Notes have been accepted for clearance through Cedel Bank and Euroclear. The Common Code is 7896280 and the ISIN is XS0078962809.

8. The Issuer does not publish interim financial statements.

9. The Issuer's obligations in respect of the Notes are guaranteed by The Republic of South Africa.

10. The annual financial Statements of the Issuer for the two years ended 31st March, 1997 were audited by Ernst & Young, Johannesburg and have been reported on without qualification.

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Midrand

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41 Tower Hill
London EC3N 4HA

Principal Paying Agent

Hambros Bank Limited
41 Tower Hill
London EC3N 4HA

Paying Agents

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