

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/

Form 424B5

February 01, 2017

CALCULATION OF REGISTRATION FEE

Class of securities offered	Aggregate offering price	Amount of Registration Fee
Collateral Trust Bonds	\$ 450,000,000	\$ 52,155 ⁽¹⁾

⁽¹⁾ The filing fee of \$52,155 is calculated in accordance with Rule 457(r) of the Securities Act of 1933. No additional registration fee has been paid with respect to this offering.

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-213558

**Prospectus Supplement
(To prospectus dated September 9, 2016)**

**National Rural Utilities
Cooperative Finance Corporation**

\$450,000,000 2.950% Collateral Trust Bonds due 2024

This is an offering by National Rural Utilities Cooperative Finance Corporation of \$450,000,000 of its 2.950% collateral trust bonds due 2024 (the bonds).

Interest on the bonds will accrue from the date of original issuance and is payable on February 7 and August 7 of each year commencing on August 7, 2017.

We may redeem the bonds in whole or in part at any time at the redemption prices described under the caption Description of the Bonds Redemption of the Bonds in this prospectus supplement.

The bonds are being offered in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Investing in the bonds involves certain risks. See Risk Factors on page S-1 of this prospectus supplement.

None of the United States Securities and Exchange Commission, any state securities commission or any foreign governmental agency has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Bond	Total
Public offering price	99.805 %	\$ 449,122,500
Underwriting discount	0.625 %	\$ 2,812,500
Proceeds, before expenses, to us	99.180 %	\$ 446,310,000

The underwriters expect to deliver the bonds in book-entry form only through the facilities of The Depository Trust Company and its participants, including Clearstream Banking, société anonyme, and Euroclear Bank, S.A./N.V. on or about February 7, 2017.

Joint Book-Running Managers

MUFG

RBC Capital Markets

Scotiabank

US Bancorp

Senior Co-Managers

J.P. Morgan
KeyBanc Capital Markets

Mizuho Securities
SunTrust Robinson Humphrey
Co-Manager

PNC Capital Markets LLC
Regions Securities LLC

ICBC

January 31, 2017

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any written communication from us or the underwriters specifying the final terms of the offering. We have not, and the underwriters have not, authorized anyone to provide you with different information. You should not assume that the information incorporated by reference or contained in this prospectus supplement, the accompanying prospectus and any written communication from us or the underwriters specifying final terms of the offering is accurate as of any date other than its respective date. We are not, and the underwriters are not, making an offer of these bonds in any state or other jurisdiction where such an offer is not permitted.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the bonds in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

In addition to using our full name, we also refer to our company as CFC, we, us, and our . References in this prospectus supplement to \$ and dollars are to the currency of the United States.

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RISK FACTORS

Investing in the bonds involves significant risks. Before you invest in the bonds, in addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the risks and uncertainties discussed in the accompanying prospectus under Risk Factors and under Item 1A, Risk Factors, or otherwise discussed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2016 and in other filings we have made with the Securities and Exchange Commission (the SEC) after the date of the registration statement of which this prospectus supplement and the accompanying prospectus is a part. Additional risks and uncertainties not presently known to us may also impair our business operations, financial results and the value of the bonds.

WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus supplement information we have filed with the SEC. This permits us to disclose important information to you by referring to these filed documents. The information incorporated by reference is an important part of this prospectus supplement, and the information we file subsequently with the SEC will automatically update and supersede the information in this prospectus supplement. Absent unusual circumstances, we will have no obligation to amend this prospectus supplement, other than filing subsequent information with the SEC. The historical and future information that is incorporated by reference in this prospectus supplement is considered to be part of this prospectus supplement. The information included elsewhere in the prospectus and this prospectus supplement, and the following information incorporated by reference is considered to be part of the prospectus and this prospectus supplement:

Annual Report on Form 10-K for the year ended May 31, 2016 (filed August 25, 2016);
Quarterly Reports on Form 10-Q for the quarter ended August 31, 2016 (filed October 11, 2016) and the quarter ended November 30, 2016 (filed January 13, 2017); and
Current Reports on Form 8-K, dated May 31, 2016 (filed June 2, 2016), July 1, 2016 (filed July 1, 2016), September 1, 2016 (filed September 1, 2016), November 18, 2016 (filed November 22, 2016) and December 1, 2016 (filed December 5, 2016).

CFC also incorporates by reference all additional documents that it may file with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act), between the date of this prospectus supplement and the termination of the offering of the bonds. However, CFC is not incorporating any document or information that is deemed to be furnished and not filed in accordance with SEC rules.

You may obtain a copy of these filings from the SEC's website at www.sec.gov or request a copy of these filings from CFC by writing or telephoning us at the following address:

National Rural Utilities Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166-6691
(703) 467-1800
Attn: J. Andrew Don, Senior Vice President and Chief Financial Officer

See also Where You Can Find More Information on page 2 of the accompanying prospectus.

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RATIO OF EARNINGS TO FIXED CHARGES

Our ratios of earnings to fixed charges for the five years ended May 31, 2016 are included in Exhibit 12 to our Annual Report on Form 10-K for the fiscal year ended May 31, 2016, and are incorporated by reference into this prospectus.

Our ratio of earnings to fixed charges for the six months ended November 30, 2016 is included in Exhibit 12 to our Quarterly Report on Form 10-Q for the quarter ended November 30, 2016, and is incorporated by reference into this prospectus.

USE OF PROCEEDS

The net proceeds from the sale of the bonds offered hereby are estimated to be \$446,085,000. The net proceeds will be used by CFC for general corporate purposes, including the repayment of short-term debt, primarily commercial paper.

DESCRIPTION OF THE BONDS

General

The bonds will be issued under an indenture dated as of October 25, 2007 (the indenture) between CFC and U.S. Bank National Association, as trustee (the trustee). The bonds will be direct obligations of CFC secured by the pledge of eligible mortgage notes of distribution system members, cash and certain permitted investments. See Security on page S-3 of this prospectus supplement as well as Description of the Collateral Trust Bonds Security beginning on page 7 of the accompanying prospectus for more information on the mortgage notes.

Interest on the Bonds

The bonds will mature on February 7, 2024 and will bear interest from the date of original issuance at a rate per annum of 2.950%. Interest on the bonds will be payable on February 7 and August 7 of each year commencing August 7, 2017 to the persons in whose names such bonds are registered at the close of business on the fifteenth calendar day preceding the payment date, or if not a business day, the next succeeding business day. Interest on the bonds will accrue from, and including, the date of issue or from, and including, the last date in respect of which interest has been paid, as the case may be, to, but excluding, the relevant interest payment date, date of redemption or the date of maturity, as the case may be. Interest on the bonds will be computed on the basis of a 360-day year of twelve 30-day months.

If any of the interest payment dates or the maturity date falls on a day that is not a business day, CFC will postpone the payment of interest or principal to the next succeeding business day, but the payment made on such dates will be treated as being made on the date payment was first due and the holders of the bonds will not be entitled to any further interest or other payments with respect to such postponements. The term business day means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the Borough of Manhattan, City and State of New York are authorized by law to close.

Redemption of the Bonds

CFC may redeem the bonds at any time, prior to December 7, 2023, in whole or in part, at a make-whole redemption price equal to the greater of (1) 100% of the principal amount being redeemed or (2) the sum of the present values of the remaining scheduled payments of the principal and interest (other than accrued interest) on the bonds being redeemed that would be due if such bonds matured on December 7, 2023, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 15 basis points for the bonds plus in each of (1) and (2) above, accrued interest to, but excluding, the redemption date.

At any time on or after December 7, 2023, we may redeem the bonds, at our option, in whole or in part, at a redemption price equal to 100% of the principal amount of the bonds then outstanding to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the date of redemption.

Treasury Rate means, for any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

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Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the bonds being redeemed (assuming, for this purpose, that bonds matured on December 7, 2023) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such bonds.

Independent Investment Banker means one of the Reference Treasury Dealers appointed by the trustee after consultation with CFC.

Comparable Treasury Price means with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations for that redemption date, or (B) if we obtain fewer than four Reference Treasury Dealer Quotations, the average of all the Reference Treasury Dealer Quotations obtained.

Reference Treasury Dealer Quotations means, for each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by the Reference Treasury Dealer at 5:00 p.m. New York City time on the third business day preceding the redemption date for the bonds being redeemed.

Reference Treasury Dealer means (1) each of RBC Capital Markets, LLC and Scotia Capital (USA) Inc., or their respective affiliates or successors; provided, however, that if any of them ceases to be a primary U.S. Government securities dealer in the United States, CFC will appoint another primary U.S. Government securities dealer as a substitute, (2) one primary U.S. Government securities dealer selected by each of MUFG Securities Americas Inc. and U.S. Bancorp Investments, Inc. and (3) any other U.S. Government securities dealers selected by CFC.

If CFC elects to redeem less than all of the bonds, and such bonds are at the time represented by a global security, then the depositary will select by lot the particular interest to be redeemed. If CFC elects to redeem less than all of the bonds, and such bonds are not represented by a global security, then the trustee will select the particular bonds to be redeemed in a manner it deems appropriate and fair.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the date of redemption to each holder of the bonds to be redeemed. Unless CFC defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on such bonds or the portions called for redemption.

Ranking

Except as to security, the bonds will rank on a parity with all other senior obligations of CFC, other than debt with statutory priority.

Security

The bonds will be secured under the indenture, equally with all existing collateral trust bonds and collateral trust bonds which may be subsequently issued under the indenture, by the pledge with the trustee of eligible collateral having an allowable amount (as defined in the indenture) at least equal to the aggregate principal amount of bonds outstanding. The indenture provides that collateral will consist of mortgage notes of distribution system members, cash and permitted investments. A distribution system member is a member of CFC that derives at least 50% of gross operating revenues from sales of electricity to consumers. The principal amount of collateral on deposit with the

trustee must be at least equal to the aggregate principal amount of collateral trust bonds outstanding. On November 30, 2016, there were a total of \$7,168 million of eligible mortgage notes and \$149 million of permitted investments pledged under the indenture with the trustee, against which \$6,748 million of collateral trust bonds (not including the bonds offered hereby) had been issued. Under the mortgages held as collateral, CFC generally has a lien on all assets and future revenues of the subject distribution system. To be eligible for pledging, a distribution system must maintain an equity ratio of at least 20% and an average coverage ratio of at least 1.35. The principal amount of mortgage notes pledged for any one borrower may not exceed 10% of the total principal amount of mortgage notes pledged. CFC discloses the principal amount of collateral on deposit and aggregate principal amount of bonds

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outstanding in each of its Form 10-Q and Form 10-K filings with the SEC. Any cash held by the trustee as collateral shall upon CFC's request be invested until required to be paid out under the provisions of the indenture.

CFC also has existing collateral trust bonds outstanding under an indenture dated as of February 15, 1994 between CFC and U.S. Bank National Association, as successor trustee (the 1994 Indenture). The collateral under the 1994 Indenture secures only those bonds issued under the 1994 Indenture, and will not secure the bonds issued in this offering.

The following are permitted investments under the indenture:

certain obligations of or guaranteed by the United States and of agencies of the United States for which the full faith and credit of the obligor shall be pledged and which mature (except in the case of obligations guaranteed by the Rural Utilities Service) not more than two years after purchase, certificates of deposit or time deposits of any bank or trust company organized under the laws of the United States having at least \$500,000,000 of capital and surplus and maturing not more than two years after purchase, commercial paper of bank holding companies or other corporate issuers other than CFC generally rated in the highest category by at least two nationally recognized statistical rating agencies and maturing not more than one year after purchase, and obligations of any state or municipality, or subdivision or agency of either thereof, which shall mature not more than two years after the purchase thereof and are rated AA (or equivalent) or better by at least two nationally recognized statistical rating organizations or having a comparable rating in the event of any future change in the rating system of such agencies.

For additional information, please see Description of Collateral Trust Bonds Security beginning on page 7 of the accompanying prospectus.

Further Issues

CFC may, without the consent of the then existing holders of the bonds, re-open the series and issue additional bonds, which additional bonds will have the same terms as the bonds issued hereby except for the issue price, issue date and under some circumstances, the first interest payment date. CFC will not issue any additional bonds of the series unless the additional bonds will be fungible with the bonds issued hereby for U.S. Federal income tax purposes.

Book-Entry, Delivery and Form

The Depository Trust Company (DTC), New York, NY, will act as securities depository for the bonds. The bonds will be issued as fully-registered global securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered certificates will be issued for each issue of the bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that DTC's participants (Direct Participants) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of certificates. Direct Participants include

securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Indirect access to the DTC system is also available to others such as banks, brokers and dealers, trust companies and clearing corporations that clear

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through or maintain a custodial relationship with a participant, either directly or indirectly (Indirect Participants). The rules applicable to DTC participants are on file with the SEC.

Purchases of bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the bonds on DTC's records. The ownership interest of each actual purchaser of each bond (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the bonds, except in the event the book-entry system for the bonds is discontinued.

To facilitate subsequent transfers, all bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to CFC as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions, and dividend payments on the bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from CFC, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC or CFC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of CFC, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the bonds at any time by giving reasonable notice to CFC. Under such circumstances, in the event that a successor depository is not obtained, certificates are

required to be printed and delivered.

CFC may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC. Certificates

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may also be printed and delivered in the event of an event of default under the indenture and the subsequent surrender by DTC of the global bonds.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that CFC believes to be reliable, but neither CFC nor the underwriters take any responsibility for the accuracy thereof.

Payments on any definitive bonds would be made by the trustee directly to holders of the definitive bonds in accordance with the procedures set forth herein and in the indenture. Interest payments and any principal payments on the definitive bonds on each interest payment date would be made to holders in whose names the definitive bonds were registered at the close of business on the related record date as set forth under "Interest on the Bonds" beginning on page S-2. Such payments would be made by check mailed to the address of such holders as they appear on the bond register and, in addition, under the circumstances provided by the indenture, by wire transfer to a bank or depository institution located in the United States and appropriate facilities thereof. The final payment of principal and interest on any definitive bonds, however, would be made only upon presentation and surrender of such definitive bonds at the office of the paying agent for such bonds.

A definitive bond may be transferred free of charge in whole or in part upon the surrender of the definitive bond to be transferred, together with the completed and executed assignment which appears on the reverse of the definitive bond, at the specified office of any transfer agent. In the case of a permitted transfer of any part of a definitive bond, a new definitive bond in respect of the balance not transferred will be issued to the transferor. Each new definitive bond to be issued upon the transfer of a definitive bond will, upon the effective receipt of such completed assignment by a transfer agent at its respective specified office, be available for delivery at such specified office, or at the request of the holder requesting such transfer, will be mailed at the risk of the transferee entitled to the new definitive bond to such address as may be specified in such completed assignment. Neither the registrar nor any transfer agent shall be required to register the transfer of or exchange of any definitive bonds within 15 days before the maturity date.

Global Clearance and Settlement Procedures

Initial settlement for the bonds will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's same-day funds settlement system.

Because of time-zone differences, credits of bonds received in Clearstream Banking, société anonyme (Clearstream) or Euroclear Bank, S.A./N.V. (Euroclear), as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such bonds settled during such processing will be reported to the relevant Clearstream or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of bonds by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the bonds among its participants, DTC, Clearstream and Euroclear are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

Neither CFC, the trustee nor the underwriters will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, DTC's nominee or any DTC

participant with respect to any ownership interest in the bonds, or payments to, or the providing of notice for, DTC participants or beneficial owners.

Notices

Except as otherwise provided in the indenture, notices to holders of the bonds will be sent by mail to the registered holders.

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Replacement Securities

In case of mutilation, destruction, loss or theft of any definitive bond, application for replacement is to be made at the office of the trustee. Any such definitive bond will be replaced by the trustee in compliance with such procedures, and on such terms as to evidence and indemnity, as the issuer and the trustee may require. All costs incurred in connection with the replacement of any definitive bond will be borne by the holder of the bond. Mutilated or defaced definitive bonds must be surrendered before new ones will be issued.

Applicable Law

The bonds, the indenture and the underwriting agreement relating to the issuance of the bonds are governed by and will be construed in accordance with the laws of the State of New York. CFC has not submitted to the jurisdiction of any court other than the Federal and state courts of the Commonwealth of Virginia in any suit or proceeding arising out of or relating to the issuance of the bonds.

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CERTAIN MATERIAL U.S. FEDERAL TAX CONSIDERATIONS

General

This section summarizes the material U.S. federal tax consequences to holders of the bonds. The discussion, however, is limited in the following ways:

The discussion only covers you if you buy your bonds in the initial offering of the bonds at the initial offering price. The discussion only covers you if you hold your bonds as a capital asset (generally, for investment purposes), your functional currency is the U.S. dollar (if you are a U.S. holder) and you do not have a special tax status.

The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of the bonds, such as your holding the bonds in connection with a hedging, straddle or conversion transaction. We suggest that you consult your tax advisor about the consequences of holding the bonds in your particular situation.

The discussion does not cover you if you are a partner in a partnership (or an entity treated as a partnership for U.S. federal tax purposes). If a partnership holds the bonds, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding the bonds, we suggest that you consult your tax advisor.

The discussion is based on current law. Changes in the law may change the tax treatment of the bonds. The discussion does not cover state, local or foreign law, and, except for the U.S. federal estate tax consequences discussed below with respect to Non-U.S. holders, does not cover any U.S. federal tax consequences other than income tax consequences.

This discussion does not cover the Medicare tax that may be imposed on the net investment income of U.S. holders that are individuals, estates or trusts.

We have not requested a ruling from the Internal Revenue Service (IRS) on the tax consequences of owning the bonds. As a result, the IRS could disagree with portions of this discussion.

If you are considering buying bonds, we suggest that you consult your tax advisors about the tax consequences of holding the bonds in your particular situation.

Tax Consequences to U.S. Holders

This section applies to you if you are a U.S. holder. A U.S. holder is a beneficial owner of the bonds that is, for U.S. federal income tax purposes:

an individual U.S. citizen or resident alien;
a corporation or entity taxable as a corporation for U.S. federal income tax purposes that was created under U.S. law (federal or state);

an estate whose worldwide income is subject to U.S. federal income tax; or
a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and if one or more U.S. persons have the authority to control all substantial decisions of the trust, or if it has validly elected to be treated as a U.S. person.

Stated Interest

Assuming the bonds are not issued with more than a de minimus amount of original issue discount, stated interest on the bonds is treated as follows:

If you are a cash method taxpayer (as are most individual holders), you must report that interest in your income when you receive it.

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If you are an accrual method taxpayer, you must report that interest in your income as it accrues.

Sale or Retirement of the Bonds

On your sale or retirement of your bonds:

You will have taxable gain or loss equal to the difference between the amount received by you and your tax basis in the bonds. Your tax basis in the bonds generally is your cost.