

RATINGS:

S&P: BBB+

Moody's: Baa1

NEW ISSUE

OFFICIAL STATEMENT

In the opinion of Pietrantoní Méndez & Alvarez, Bond Counsel, under existing law (i) the 1997 Series A Bonds (as defined herein) and the interest thereon are exempt from Puerto Rico income, municipal license and personal property taxes, (ii) under certain circumstances, the 1997 Series A Bonds are exempt from Puerto Rico gift and estate taxes, (iii) the interest on the 1997 Series A Bonds is not subject to income tax under the United States Internal Revenue Code of 1986, as amended (the "Code"), when received by (a) individuals who are *bona fide* residents of Puerto Rico during the entire taxable year in which such interest is received and (b) under certain circumstances, foreign corporations, including Puerto Rico corporations, and (iv) the interest on the 1997 Series A Bonds is not excludable from the gross income of the recipients thereof under Section 103(a) of the Code. See "TAXATION."

\$133,013,924.40

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

\$51,195,340 General Purpose Revenue Bonds, Series 1997 A

\$81,818,584.40 Refunding Revenue Bonds, Series 1997 A

Dated: October 15, 1997

Due: July 1, as shown on the inside cover

(Capital Appreciation Bonds dated their date of delivery)

The General Purpose Revenue Bonds, Series 1997 A, and the Refunding Revenue Bonds, Series 1997 A (collectively, the "1997 Series A Bonds") are being issued concurrently with the General Purpose Revenue Bonds, Series 1997 B (the "1997 Series B Bonds" and, together with the 1997 Series A Bonds, the "Series 1997 Bonds"), in fully registered form and when issued will initially be registered only in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 1997 Series A Bonds. The 1997 Series A Bonds will be available to purchasers only in denominations of \$5,000 principal amount and any multiple thereof (\$5,000 maturity amount and any multiple thereof in the case of Capital Appreciation Bonds) only under the book-entry system maintained by DTC through brokers and dealers who are, or act through, DTC Participants (as defined herein). **Purchasers will not receive physical delivery of the 1997 Series A Bonds. As long as any purchaser is the beneficial owner of a 1997 Series A Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant in order to receive payment of principal of and interest on such 1997 Series A Bond. See "DESCRIPTION OF THE SERIES 1997 BONDS — Book-Entry Only System."**

Interest on the 1997 Series A Bonds (other than Capital Appreciation Bonds) will be payable July 1, 1998, and each January 1 and July 1 thereafter. Interest on the Capital Appreciation Bonds (as described herein) will be compounded on January 1 and July 1 of each year, commencing January 1, 1998, and will be payable as part of the Accreted Value (as described herein) of the Capital Appreciation Bonds due and payable at maturity or redemption. Certain of the 1997 Series A Bonds are subject to redemption prior to maturity as described herein.

The 1997 Series A Bonds are being issued on a parity with the 1997 Series B Bonds pursuant to the provisions of a trust indenture, dated as of July 1, 1964, as amended (the "Trust Indenture"), between Puerto Rico Industrial Development Company ("PRIDCO") and State Street Bank and Trust Company, N.A., successor trustee (the "Trustee") and, together with the outstanding bonds and such additional bonds as may be issued, are payable from the gross revenues of the Trusteed Properties (as defined herein), consisting primarily of rent on industrial properties and, if required, from any other available funds of PRIDCO.

THE SERIES 1997 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COMMONWEALTH OF PUERTO RICO (THE "COMMONWEALTH" OR "PUERTO RICO") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE COMMONWEALTH NOR ANY OF SUCH SUBDIVISIONS SHALL BE LIABLE THEREON, AND THE SERIES 1997 BONDS AND INTEREST THEREON ARE NOT PAYABLE FROM ANY FUNDS OTHER THAN THOSE OF PRIDCO.

The 1997 Series A Bonds are offered for delivery when, as and if issued and received by the Underwriters, subject to the approval of legality by Pietrantoní Méndez & Alvarez, San Juan, Puerto Rico, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Axtmayer Adsuar Muñiz & Goyco, P.S.C., San Juan, Puerto Rico. It is expected that settlement for the 1997 Series A Bonds will occur in San Juan, Puerto Rico, on or about November 6, 1997.

PaineWebber Incorporated of Puerto Rico

Popular Securities

**Doral Securities, Inc.
Oriental Financial Services Corp.
Samuel A. Ramirez & Co., Inc.**

**Merrill Lynch & Co.
Prudential Securities Incorporated
Santander Securities**

**Morgan Stanley Dean Witter
Raymond James & Associates, Inc.
Smith Barney Inc.**

\$133,013,924.40

Puerto Rico Industrial Development Company

\$21,945,000 Serial Bonds

<u>Maturity Date (July 1,)</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Price</u>	<u>Maturity Date (July 1,)</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Price</u>
1999	\$1,920,000	6.00%	100%	2004	\$2,555,000	6.35%	100%
2000	\$2,010,000	6.10%	100%	2005	\$2,715,000	6.40%	100%
2001	\$2,130,000	6.20%	100%	2006	\$2,890,000	6.45%	100%
2002	\$2,255,000	6.25%	100%	2007	\$3,065,000	6.50%	100%
2003	\$2,405,000	6.30%	100%				

\$11,038,924.40 Capital Appreciation Bonds

<u>Maturity Date (July 1,)</u>	<u>Initial Principal Amount</u>	<u>Maturity Amount</u>	<u>Price</u>	<u>Yield to Maturity</u>	<u>MaturityDate (July 1,)</u>	<u>Initial Principal Amount</u>	<u>Maturity Amount</u>	<u>Price</u>	<u>Yield to Maturity</u>
2008	\$5,697,242.80	\$11,320,000.00	50.329%	6.55%	2009	\$5,341,681.60	\$11,320,000.00	47.188%	6.55%

\$100,030,000 Term Bonds

\$23,780,000 6.50% Term Bonds due July 1, 2011 - Yield 6.60%

\$54,845,000 6.65% Term Bonds due July 1, 2015 - Yield 6.70%

\$21,405,000 6.70% Term Bonds due July 1, 2021 - Yield 6.75%

\$133,013,924.40
Puerto Rico Industrial Development Company

\$51,195,340 General Purpose Revenue Bonds, Series 1997 A

\$13,395,000 Serial Bonds

Maturity Date (July 1,)				Maturity Date (July 1,)			
Amount	Coupon	Price	Amount	Coupon	Price		
1999	\$1,155,000	6.00%	100%	2004	\$1,560,000	6.35%	100%
2000	\$1,225,000	6.10%	100%	2005	\$1,660,000	6.40%	100%
2001	\$1,300,000	6.20%	100%	2006	\$1,765,000	6.45%	100%
2002	\$1,380,000	6.25%	100%	2007	\$1,880,000	6.50%	100%
2003	\$1,470,000	6.30%	100%				

\$1,950,340 Capital Appreciation Bonds

Maturity Date (July 1,)	Initial Principal Amount	Maturity Amount	Price	Yield to Maturity	Maturity Date (July 1,)	Initial Principal Amount	Maturity Amount	Price	Yield to Maturity
2008	\$1,006,580.00	\$2,000,000.00	50.329%	6.55%	2009	\$943,760.00	\$2,000,000.00	47.188%	6.55%

\$35,850,000 Term Bonds

\$4,205,000 6.50% Term Bonds due July 1, 2011 - Yield 6.60%
 \$10,240,000 6.65% Term Bonds due July 1, 2015 - Yield 6.70%
 \$21,405,000 6.70% Term Bonds due July 1, 2021 - Yield 6.75%

\$81,818,584.40 Refunding Revenue Bonds, Series 1997 A

\$8,550,000 Serial Bonds

Maturity Date (July 1,)				Maturity Date (July 1,)			
Amount	Coupon	Price	Amount	Coupon	Price		
1999	\$765,000	6.00%	100%	2004	\$995,000	6.35%	100%
2000	\$785,000	6.10%	100%	2005	\$1,055,000	6.40%	100%
2001	\$830,000	6.20%	100%	2006	\$1,125,000	6.45%	100%
2002	\$875,000	6.25%	100%	2007	\$1,185,000	6.50%	100%
2003	\$935,000	6.30%	100%				

\$9,088,584.40 Capital Appreciation Bonds

Maturity Date (July 1,)	Initial Principal Amount	Maturity Amount	Price	Yield to Maturity	Maturity Date (July 1,)	Initial Principal Amount	Maturity Amount	Price	Yield to Maturity
2008	\$4,690,662.80	\$9,320,000.00	50.329%	6.55%	2009	\$4,397,921.60	\$9,320,000.00	47.188%	6.55%

\$64,180,000 Term Bonds

\$19,575,000 6.50% Term Bonds due July 1, 2011 - Yield 6.60%
 \$44,605,000 6.65% Term Bonds due July 1, 2015 - Yield 6.70%

The cover page and the inside cover page contain certain information for quick reference only; they are not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

This Official Statement is delivered in connection with the offer and sale of the securities described herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities offered hereby to or by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, broker, sales representative or other person has been authorized by PRIDCO or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by PRIDCO or the Underwriters. The delivery of this Official Statement at any time does not imply that the information contained herein is correct as of any time subsequent to its date. The information set forth herein has been obtained from PRIDCO and other official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of PRIDCO or the Commonwealth since the date hereof.

Certain matters discussed in this Official Statement concerning PRIDCO's future results, performance, intentions, plans and expectations are "forward looking" statements and, as such, are subject to a number of known risks and uncertainties.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 1997 BONDS OFFERED HEREBY AND PRIDCO'S OUTSTANDING BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

There is currently no secondary market for the 1997 Series A Bonds and there can be no assurance that a secondary market will develop or, if it does develop, that it will provide holders of the 1997 Series A Bonds with liquidity for their investment or that it will continue for the life of the 1997 Series A Bonds.

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SUMMARY STATEMENT

The following is a summary of certain information contained in this Official Statement with respect to the 1997 Series A Bonds (as defined below). Reference is made to the text of the Official Statement for a more detailed statement of such information. The 1997 Series A Bonds are offered to potential investors only by means of the entire Official Statement, including this summary and the Appendices hereto. No person is authorized to detach this summary or otherwise use it without the entire Official Statement, including this summary and the Appendices hereto.

The purpose of this Official Statement of Puerto Rico Industrial Development Company ("PRIDCO") is to furnish information with respect to its \$51,195,340 Puerto Rico Industrial Development Company General Purpose Revenue Bonds, Series 1997 A (the "Series A General Purpose Revenue Bonds"), and \$81,818,584.40 Puerto Rico Industrial Development Company Refunding Revenue Bonds, Series 1997 A (the "Series A Refunding Revenue Bonds" and, together with the Series A General Purpose Revenue Bonds, the "1997 Series A Bonds"). The 1997 Series A Bonds are being issued concurrently with PRIDCO's General Purpose Revenue Bonds, Series 1997 B (the "1997 Series B Bonds" and, together with the 1997 Series A Bonds, the "Series 1997 Bonds"). The Series 1997 Bonds, the \$58,342,121 in outstanding bonds (excluding the Defeased Bonds, as defined herein), and any Additional Bonds which may be issued under the Trust Indenture (as described herein) are referred to herein collectively as the "Bonds."

The 1997 Series A Bonds will be issued on a parity with the 1997 Series B Bonds pursuant to Puerto Rico Act No. 188 of 1942, as amended (the "Act"), and under the provisions of a trust indenture, dated as of July 1, 1964, as amended (the "Trust Indenture"), between PRIDCO and State Street Bank and Trust Company, N.A., New York, New York, successor trustee (the "Trustee"). PRIDCO has proposed the execution of certain supplements to the Trust Indenture. By purchase of the Series 1997 Bonds, purchasers will have consented to the terms of such supplements.

PRIDCO — Puerto Rico Industrial Development Company is a public corporation and governmental instrumentality created by the Act in 1942 to stimulate the formation of new local firms and to encourage United States and foreign firms to establish operations in the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"). To accomplish its mission, PRIDCO maintains a continuing infrastructure development program, including facilities for lease or sale to qualified private industrial investors, and the construction of industrial facilities for lease.

Purpose — The Series A General Purpose Revenue Bonds are being issued to provide funds for the repayment of all of PRIDCO's line of credit for capital improvements with Government Development Bank for Puerto Rico ("GDB"), and to provide approximately \$25,000,000 for additional capital improvements. The Series A Refunding Revenue Bonds are being issued to refund \$16,060,000 General Purpose Revenue Bonds, Series 1978, \$5,210,000 General Purpose Revenue Refunding Bonds, Series 1988, \$41,295,000 General Purpose Revenue Bonds, Series 1991, and \$14,489,879 Refunding Revenue Bonds, Series 1991 (collectively, the "Defeased Bonds").

Security — The Bonds (excluding the Defeased Bonds) are secured under the Trust Indenture and are payable from the gross revenues received by PRIDCO from certain of its properties, designated therein as the Trusteed Properties (the "gross revenues of the Trusteed Properties") and, if required, from other available funds.

Under the Trust Indenture, PRIDCO covenants that if the gross revenues of the Trusteed Properties (as defined herein) during the 12 months immediately preceding the date of computation are less than 125% of the maximum Principal and Interest Requirements (as described herein) for any fiscal year succeeding the date of computation on all the Bonds then outstanding, it will immediately designate as Trusteed Properties such other of its unencumbered properties eligible to be trusteed (the "Eligible Properties") as may be necessary in order that the gross revenues of the Trusteed Properties to be received in the next succeeding 12 months at least equal to 125% of such maximum Principal and Interest Requirements.

Reserve Account — Under the Trust Indenture, PRIDCO is required to accumulate and maintain in the Reserve Account created thereunder an amount (in cash or certain letter of credit or insurance facilities) equal to the maximum Principal and Interest Requirements for any fiscal year on account of all outstanding Bonds.

Additional Bonds — Additional Bonds may be issued under the terms of the Trust Indenture for any corporate purpose if (i) the sum of certain annualized and adjusted historical gross revenues of the Trusteed Properties, investment earnings from moneys on deposit in the Reserve Account as described in the Trust Indenture and certain proceeds from the sale of properties are at least equal to 125% of the maximum Principal and Interest Requirements for any fiscal year after such issuance on all Bonds outstanding and the proposed Additional Bonds, and (ii) the estimated average annual gross revenues of the Trusteed Properties

and the Reserve Account investment earnings for the three fiscal years following the fiscal year in which the Additional Bonds are issued are at least 110% of the maximum annual Principal and Interest Requirements on all Bonds outstanding and the proposed Additional Bonds.

Proposed Supplemental Indentures — PRIDCO has proposed the execution of a third and a sixth supplemental indenture to the Trust Indenture (individually, the "Third Supplemental Indenture" and the "Sixth Supplemental Indenture," respectively, and collectively, the "Proposed Supplemental Indentures").

Purchasers of the Series 1997 Bonds (including the 1997 Series A Bonds) will have consented by their purchase to the terms of the Proposed Supplemental Indentures. The Third and Sixth Supplemental Indentures will be executed when owners of 100% and 66.67%, respectively, of the outstanding Bonds consent thereto. Upon the issuance of the Series 1997 Bonds, the owners of 100% and 71.87%, respectively, in principal amount of the Bonds will have consented to the Third and Sixth Supplemental Indentures. The Third and Sixth Supplemental Indentures will each be executed promptly after the issuance of the Series 1997 Bonds.

Gross Revenues and Debt Coverage Ratios — The following tables set forth certain historical and projected gross revenues available for debt service and debt coverage ratio information.

Table I — Historical Gross Revenues and Debt Coverage Ratios
(Fiscal Year Ended June 30)
(dollars in thousands)

	1993	1994	1995	1996	1997
Gross Revenues Available for Debt Service ¹	\$46,557	\$47,789	\$49,038	\$52,065	\$51,555
Maximum Principal and Interest Requirements	\$25,838	\$25,838	\$25,838	\$25,838	\$25,838
Debt Coverage Ratio	1.80	1.85	1.90	2.02	2.00

¹ Revenues collected from Trusteed Properties, Eligible Properties, Interest on Reserve Account, and certain proceeds available from the sale of properties.

Table II — Projected Gross Revenues and Debt Coverage Ratios
(Fiscal Year Ending June 30)
(dollars in thousands)

	1998	1999	2000	2001	2002
Gross Revenues Available for Debt Service ¹	\$52,829	\$55,286	\$57,119	\$58,613	\$60,088
Maximum Principal and Interest Requirements including Series 1997 Bonds	\$18,863	\$18,863	\$18,863	\$18,863	\$18,863
Debt Coverage Ratio	2.80	2.93	3.03	3.11	3.19

¹ Revenues collected from Trusteed Properties, Eligible Properties, Interest on Reserve Account, and certain proceeds available from the sale of properties.

Industrial Leases — PRIDCO leases its industrial properties at rental rates which are fully competitive and highly attractive relative to other industrial rental rates offered in Puerto Rico. Most of PRIDCO's top 50 tenants are large, well-established United States and foreign companies.

Debt and Capital Accounts — PRIDCO finances capital improvements from borrowings, government contributions and internally generated funds. As of June 30, 1997, adjusted for the issuance of the Series 1997 Bonds and the defeasance of the Defeased Bonds, total debt of \$209,442,000 is 36.6% of total debt and capital accounts of \$571,736,000.

Capital Improvements Program — PRIDCO plans to invest approximately \$133,257,000 during the five fiscal years ending June 30, 2002 for the purchase and development of land and construction of and improvements to industrial properties. It is estimated that this program will be financed from internally generated funds, government contributions, excess moneys released from the Reserve Account, and proceeds from the Series A General Purpose Revenue Bonds.

Taxation — In the opinion of Pietrantoní Méndez & Alvarez, Bond Counsel, under existing law, (i) the 1997 Series A Bonds and the interest thereon are exempt from Puerto Rico income, municipal license and personal property taxes, (ii) under certain circumstances, the 1997 Series A Bonds are exempt from Puerto Rico gift and estate taxes, (iii) the interest on the 1997 Series A Bonds is not subject to income tax under the United States Internal Revenue Code of 1986, as amended (the "Code"), when received by (a) individuals who are *bona fide* residents of Puerto Rico during the entire taxable year in which such interest is received and (b) under certain circumstances, foreign corporations, including Puerto Rico corporations, and (iv) the interest on the 1997 Series A Bonds is not excludable from the gross income of the recipients thereof under Section 103(a) of the Code.

Trustee — The Trustee is State Street Bank and Trust Company, N.A., which has its principal corporate trust office at 61 Broadway, New York, New York 10006; telephone (212) 612-3000.

Underwriting — The Underwriters listed on the cover page are purchasing all of the 1997 Series A Bonds at an aggregate discount of \$2,129,502.67 from the initial offering prices shown on the cover page hereof.

Continuing Disclosure Undertaking — In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission, PRIDCO, as specifically stated hereinbelow, will agree to provide or cause to be provided to each nationally recognized municipal securities information repository and to any Commonwealth state information depository, certain financial and other information related to PRIDCO.

PRIDCO acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Series 1997 Bonds, including Beneficial Owners (as defined herein), and shall be enforceable by any such holders or Beneficial Owners; provided that the right to enforce the provisions of this undertaking shall be limited to a right to obtain specific performance of PRIDCO's obligations hereunder, and any failure to comply with the provisions of this undertaking shall not be an event of default under the Trust Indenture.

Financial Information — The financial and other information included in this Official Statement relates solely to PRIDCO without its subsidiaries, unless otherwise noted.

Supplemental Information — Certain supplemental information with respect to PRIDCO may be obtained at PRIDCO's principal offices located at the Fomento Building, 355 Roosevelt Ave., Hato Rey, PR 00918, Attention: President; telephone (787) 758-4747. Supplemental information will be available from GDB at its principal offices located at Minillas Government Center, De Diego Ave., Santurce, PR 00940, Attention: President; telephone (787) 722-2525.

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OFFICIAL STATEMENT

\$133,013,924.40

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

\$51,195,340 General Purpose Revenue Bonds, Series 1997 A

\$81,818,584.40 Refunding Revenue Bonds, Series 1997 A

INTRODUCTION

The purpose of this Official Statement of Puerto Rico Industrial Development Company ("PRIDCO") is to furnish information with respect to its \$51,195,340 Puerto Rico Industrial Development Company General Purpose Revenue Bonds, Series 1997 A (the "Series A General Purpose Revenue Bonds") and \$81,818,584.40 Puerto Rico Industrial Development Company Refunding Revenue Bonds, Series 1997 A (the "Series A Refunding Revenue Bonds" and, together with the Series A General Purpose Revenue Bonds, the "1997 Series A Bonds") being issued concurrently with PRIDCO's General Purpose Revenue Bonds, Series 1997 B (the "1997 Series B Bonds" and, together with the 1997 Series A Bonds, the "Series 1997 Bonds"). The Series 1997 Bonds, the \$58,342,121 in outstanding bonds (excluding the Defeased Bonds, as defined herein) and any Additional Bonds which may be issued under the Trust Indenture (as defined herein) are referred to herein collectively as the "Bonds."

The 1997 Series A Bonds will be issued on a parity with the 1997 Series B Bonds pursuant to Puerto Rico Act No. 188 of 1942, as amended (the "Act"), and under the provisions of a trust indenture, dated as of July 1, 1964, as amended (the "Trust Indenture"), between PRIDCO and State Street Bank and Trust Company, N.A., New York, New York, successor trustee (the "Trustee"). PRIDCO has proposed the execution of certain supplements to the Trust Indenture. By purchasing the 1997 Series A Bonds, purchasers will have consented to the terms of such supplements. See "PROPOSED SUPPLEMENTAL INDENTURES" herein and Appendix I – B. "SUMMARY OF CERTAIN PROVISIONS OF THE PROPOSED SUPPLEMENTAL INDENTURES."

FINANCING PLAN

The Series A General Purpose Revenue Bonds

The Series A General Purpose Revenue Bonds will be used to provide funds for the repayment of all of PRIDCO's line of credit for capital improvements with Government Development Bank for Puerto Rico ("GDB") and to provide approximately \$25,000,000 for additional capital improvements.

The Series A Refunding Revenue Bonds

The Series A Refunding Revenue Bonds will be issued to refund \$16,060,000 General Purpose Revenue Bonds, Series 1978 (the "Series 1978 Bonds"), \$5,210,000 General Purpose Revenue Refunding Bonds, Series 1988 (the "Series 1988 Bonds"), and \$41,295,000 General Purpose Revenue Bonds, Series 1991 and \$14,489,879 Refunding Revenue Bonds, Series 1991 (together, the "Series 1991 Bonds") (collectively, the "Defeased Bonds"), as set forth below.

	Maturity	Redemption Date	Redemption Price	Principal Amount Outstanding	Principal to be Refunded
Series 1978	January 1, 2003	January 1, 1998	100.0%	\$16,060,000	\$16,060,000
Series 1988	July 1, 1998	July 1, 1998	100.0%	\$5,210,000	\$5,210,000
Series 1991	July 1, 1998	July 1, 1998	100.0%	\$775,000	\$775,000
	July 1, 2016	July 1, 2002	101.5%	\$40,520,000	\$40,520,000
Refunding Series 1991	January 1, 1998	January 1, 1998	100.0%	\$3,895,000	\$975,000
	July 1, 1998	July 1, 1998	100.0%	\$4,485,000	\$620,000
	January 1, 2008*	January 1, 2002	101.5%	\$1,528,401	\$1,528,401
	July 1, 2008*	January 1, 2002	101.5%	\$1,472,990	\$1,472,990
	January 1, 2009*	January 1, 2002	101.5%	\$1,413,785	\$1,413,785
	July 1, 2009*	January 1, 2002	101.5%	\$1,362,506	\$1,362,506
	January 1, 2010*	January 1, 2002	101.5%	\$1,310,412	\$1,310,412
	July 1, 2010*	January 1, 2002	101.5%	\$1,257,742	\$1,257,742
	January 1, 2011*	January 1, 2002	101.5%	\$1,212,153	\$1,212,153
	July 1, 2011*	January 1, 2002	101.5%	\$1,161,032	\$1,161,032
	January 1, 2012*	January 1, 2002	101.5%	\$1,110,514	\$1,110,514
	July 1, 2012*	January 1, 2002	101.5%	\$1,065,343	\$1,065,343

* Capital Appreciation Bonds. Stated amounts reflect accreted value at redemption date, rounded to the nearest dollar.

PRIDCO will deposit the net proceeds of the Series A Refunding Revenue Bonds with the Trustee under the terms of an escrow deposit agreement to be entered into by and between PRIDCO and the Trustee (the "Escrow Deposit Agreement"). Such net proceeds and certain other available moneys, as provided in the Trust Indenture, will be invested in non-callable Government Obligations (as defined in the Trust Indenture), the maturing principal of and interest on which obligations, together with any uninvested moneys, will be sufficient to pay when due the principal of and premium, if any, and interest on the Defeased Bonds as the same become due through their respective dates of redemption. Upon the deposit referred to above and the giving of irrevocable instructions to call the Defeased Bonds for redemption, the Defeased Bonds shall, in the opinion of Bond Counsel, no longer be outstanding under the provisions of the Trust Indenture.

The 1997 Series B Bonds

The 1997 Series B Bonds will be issued to provide a capital contribution of \$16,452,022.78 to Puerto Rico Industrial Investment Corporation ("PRIICO"), to enable PRIICO to refund in their entirety and defease its General Obligation Bonds, Series 1990 A (the "Series 1990 PRIICO Bonds").

Sources and Uses of Funds

Table III — Sources and Uses of Funds

Sources:	
Principal Amount of Series A General Purpose Revenue Bonds	\$51,195,340.00
Principal Amount of Series A Refunding Revenue Bonds	81,818,584.40
Principal Amount 1997 Series B Bonds	16,910,000.00
Original Issue Discount	(876,926.10)
Accrued Interest	520,327.21
Total Sources	<u>\$149,567,325.51</u>
Uses:	
Deposit to Escrow Account	\$79,876,814.28
Capital Improvements Program ¹	25,000,000.00
Payment of GDB Line of Credit ²	25,000,000.00
Capital Contribution to PRIICO	16,452,022.78
Underwriting Discount and Estimated Legal, Printing and Financing Expenses	2,718,161.24
Accrued Interest	520,327.21
Total Uses	<u>\$149,567,325.51</u>

¹ See "CAPITAL IMPROVEMENTS PROGRAM — Projected."

² See Table XI — Debt and Capital Accounts.

SECURITY

Sources of Payment

The principal of and interest on the Bonds (including the Series 1997 Bonds) are payable from the gross revenues received by PRIDCO from certain of its revenue-producing real properties, machinery, equipment, first mortgages on real property, or first mortgage bonds, which are specified by PRIDCO to be Trusteed Properties pursuant to the terms of the Trust Indenture (the "Trusteed Properties"). Gross revenues of the Trusteed Properties include (i) all cash income received by PRIDCO on account of its ownership and operation of the Trusteed Properties, (ii) the proceeds of use and occupancy insurance, if any, received with respect to such Trusteed Properties, and (iii) any interest or other income from mortgages or mortgage bonds included as Trusteed Properties. The gross revenues of the Trusteed Properties are deposited with the Trustee by PRIDCO without deduction for any expenses or charges. The Trustee is required to make deposits from such gross revenues into the Bond Service Account, the Redemption Account and the Reserve Account in the Sinking Fund until the amounts in such accounts are sufficient to meet the semiannual debt service requirements on all Bonds as the same become due and payable and to maintain the amounts deposited to the credit of the Reserve Account equal to the maximum Principal and Interest Requirements for any fiscal year on all outstanding Bonds (see "PRINCIPAL AND INTEREST REQUIREMENTS"). Any remaining balance of the gross revenues of the Trusteed Properties after meeting each semiannual payment, is to be transferred to a separate account and will be available for any proper corporate purpose of PRIDCO.

Under the Trust Indenture, if the gross revenues of the Trusteed Properties during the 12 months immediately preceding the date of computation are less than 125% of the maximum Principal and Interest Requirements for any fiscal year succeeding the date of computation on all the Bonds then outstanding, PRIDCO must immediately designate as Trusteed Properties such other of its unencumbered properties eligible to be trusteed (the "Eligible Properties") as may be necessary in order that the gross revenues of the Trusteed Properties to be received in the next 12 months succeeding the date of computation will be at least 125% of such maximum Principal and Interest Requirements.

In the event that at any time the gross revenues of the Trusteed Properties together with amounts to the credit of the Reserve Account are not sufficient to meet the maximum annual Principal and Interest Requirements on the Bonds, PRIDCO is required to deposit with the Trustee such amounts as may be necessary to meet such requirements.

PRIDCO is required by the Trust Indenture to maintain use and occupancy insurance on any Trusteed Property which in the preceding 12 month period provided gross income of at least \$1,000,000 or income from contingent rentals of at least \$250,000, in an aggregate amount of not less than the actual amount of such gross income or contingent rentals, as the case may be. Contingent rentals are rentals for which the payment due in a given year is contingent upon the profitability of the leased facility for that year. The proceeds from any use and occupancy insurance of the Trusteed Properties constitute gross revenues of the Trusteed Properties and will be deposited with the Trustee as received. Currently, no Trusteed Property produces such annual rentals in the above amounts and, therefore, such insurance is not being maintained.

Reserve Account

Under the Trust Indenture, PRIDCO is required to accumulate and maintain in the Reserve Account an amount (in cash or certain letters of credit or insurance facilities) equal to the maximum annual Principal and Interest Requirements on all outstanding Bonds, including the Series 1997 Bonds (and excluding the Defeased Bonds). On June 30, 1997, the balance in the Reserve Account was \$37,411,000, which amount is greater than the maximum annual Principal and Interest Requirements on the Bonds, including the Series 1997 Bonds after taking into account the refunding of the Defeased Bonds. The moneys in the Reserve Account are to be used to pay the principal, interest and amortization requirements of the Bonds to the extent gross revenues of the Trusteed Properties are insufficient therefor. See Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING PROPOSED SUPPLEMENTAL INDENTURES—Collection and Disposition of Revenues." After execution of the Sixth Supplemental Indenture (as defined herein), the excess moneys in the Reserve Account will be permitted to be released to PRIDCO and made available for its general corporate purposes, including additional capital improvements. See "PROPOSED SUPPLEMENTAL INDENTURES" herein.

Additional Bonds

Additional Bonds may be issued, under the conditions set forth in the Trust Indenture, for any proper corporate purpose provided that, the following two tests are met:

1. The sum of the amounts shown in items (i), (ii), (iii), (iv), and (v) below (certified by PRIDCO's President and General Manager not earlier than 60 days before the issuance of such Bonds and approved by an acceptable nationally recognized accounting firm) is not less than 125% of the maximum Principal and Interest Requirements for any fiscal year on account of all Bonds then outstanding, including the Additional Bonds:

(i) the lesser of the amount of one-third of the contingent rentals received by PRIDCO for the preceding 36 months from the properties which then constitute the Trusteed Properties (whether or not they were Trusteed Properties for the entire 36 months), and the amount of such contingent rentals received by PRIDCO for the preceding 12 months, excluding from both such amounts any contingent rentals received by PRIDCO under lease agreements which are not then in effect;

(ii) the amount of the fixed base rentals received by PRIDCO from the Trusteed Properties for the preceding 12 months, excluding any rentals received under lease agreements which are not then in effect or which were renewed at a different rate, but including any fixed base rentals which would have been received under new lease agreements of Trusteed Properties, including any agreements which were renewed at different rates, entered into during such 12-month period as if they had been in effect throughout such 12-month period;

(iii) the amount of cash income received by PRIDCO in the preceding 12 months from any mortgages or mortgage bonds included in the Trusteed Properties, excluding any income which has ceased to accrue to PRIDCO, but including any income which would have been received by PRIDCO from mortgages or mortgage bonds included in the Trusteed Properties acquired by PRIDCO during such 12-month period as if they had been owned by PRIDCO throughout such 12-month period;

(iv) the amount (not to exceed 20% of the sum of the amounts shown in items (i), (ii), and (iii) above) of the proceeds received by PRIDCO in the preceding 12 months, (A) from the sale or other disposition of Trusteed Properties in accordance with Section 608 of the Trust Indenture (see Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING PROPOSED SUPPLEMENTAL INDENTURES — Particular Covenants and Provisions — Conditions on Sale of Trusteed Properties; Disposition of Proceeds (Sec. 608)), and (B) from the sale of land and any other industrial properties not included in a Section 608 sale or disposition; and

(v) the amount of all investment income in the Reserve Account in the preceding 12 months.

2. The sum of the estimated average annual gross revenues of the Trusteed Properties and Reserve Account investment earnings for the three fiscal years after the fiscal year in which the Additional Bonds are issued is at least 110% of the maximum annual Principal and Interest Requirements on all Bonds outstanding and the proposed Additional Bonds.

Refunding Bonds may also be issued and secured under the Trust Indenture subject to the conditions set forth therein. See Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING PROPOSED SUPPLEMENTAL INDENTURES — Issuance of Additional Bonds."

PROPOSED SUPPLEMENTAL INDENTURES

PRIDCO has proposed the execution of a third and a sixth supplemental indenture to the Trust Indenture (individually, the "Third Supplemental Indenture" and the "Sixth Supplemental Indenture," respectively, and collectively, the "Proposed Supplemental Indentures"). For a description of such Proposed Supplemental Indentures, see Appendix I — B. "SUMMARY OF CERTAIN PROVISIONS OF PROPOSED SUPPLEMENTAL INDENTURES."

The proposed Third Supplemental Indenture will permit PRIDCO to secure its obligations to providers of credit or liquidity facilities securing Bonds by granting liens on gross revenues of the Trusteed Properties on a parity with the Bonds.

The proposed Sixth Supplemental Indenture will provide that (i) if at any time the moneys to the credit of the Reserve Account exceed the maximum Principal and Interest Requirements for the then current or any future fiscal year on account of all Bonds outstanding, the Trustee shall apply such excess to make up any deficiency in the deposits required to be made to the credit of the Bond Service Account and the Redemption Account and the balance, if any, shall be paid to PRIDCO upon its request for use for any proper corporate purpose, and (ii) any moneys on deposit in the Reserve Account in substitution for which a Reserve Account Insurance Policy (as defined in the Trust Indenture) or a Reserve Account Letter of Credit (as defined in the Trust Indenture) is deposited into the Reserve Account shall, to the extent not required to make up any deficiency in the deposits required to be made to the credit of the Bond Service Account and the Redemption Account, be released and immediately paid over to PRIDCO, to be used by PRIDCO for any of its proper corporate purposes. Accordingly, upon the execution of the proposed Sixth Supplemental Indenture, the excess moneys in the Reserve Account will be applied as described above.

In addition, the proposed Sixth Supplemental Indenture will amend the Trust Indenture (i) to provide that interest income from obligations deposited with the Trustee to defease Bonds will only be used by the Trustee for the payment of the refunded Bonds and shall not be deposited to the credit of the Bond Service Account, and (ii) for other miscellaneous matters.

Purchasers of the Series 1997 Bonds (including the 1997 Series A Bonds) will have consented by their purchase to the terms of the Proposed Supplemental Indentures. The Third and Sixth Supplemental Indentures will be executed when owners of 100% and 66.67%, respectively, of the outstanding Bonds consent thereto. Upon the issuance of the Series 1997 Bonds, the owners of 100% and 71.87%, respectively, in principal amount of the Bonds will have consented to the execution of the Third and Sixth Supplemental Indentures. The Third and Sixth Supplemental Indentures will each be executed promptly after the issuance of the Series 1997 Bonds.

Copies of the Proposed Supplemental Indentures in substantially final form are on file with and may be obtained from the Trustee. The Proposed Supplemental Indentures are subject to modification without further consent of the owners of the Bonds to the extent such modifications will not require consent of Bondholders under the provisions of the Trust Indenture after the Proposed Supplemental Indentures are executed.

DESCRIPTION OF THE 1997 SERIES A BONDS

General

The 1997 Series A Bonds will be dated October 15, 1997 (except Capital Appreciation Bonds, which will be dated the date of their delivery), and are issuable to the purchasers thereof as fully registered bonds in denominations of \$5,000 principal amount and multiples thereof (\$5,000 maturity amount and any multiple thereof in the case of Capital Appreciation Bonds) only in book-entry form as described below under "Book-Entry Only System." The 1997 Series A Bonds will bear interest at such rates, payable at such times (except Capital Appreciation Bonds) and will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement. Interest on the 1997 Series A Bonds (except the Capital Appreciation Bonds) will be computed on the basis of a 360-day year consisting of twelve 30-day months. Principal of and premium, if any, and interest on the 1997 Series A Bonds will be payable in the manner described below under "Book-Entry Only System." The 1997 Series A Bonds are subject to redemption as described below under "Redemption Provisions."

The Capital Appreciation Bonds will be payable at their maturity dates in amounts equal to their respective Accreted Values (as described herein) as of such dates. The Accreted Value per \$5,000 maturity amount of each Capital Appreciation Bond on their date of issuance and on each subsequent January 1 and July 1 of each year (each a "Valuation Date"), is shown in Appendix V hereto. The Accreted Value of the Capital Appreciation Bonds on any other date is the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (a) a fraction, the numerator of which is the actual number of days having elapsed from the preceding Valuation Date and the denominator of which is the actual number of days from such preceding Valuation Date to the next succeeding

Valuation Date, and (b) the difference between the Accreted Values for such Valuation Dates. Interest on the Capital Appreciation Bonds will be included as part of their Accreted Value due and payable at maturity.

Book-Entry Only System

The following information concerning The Depository Trust Company ("DTC") and DTC's book entry system has been obtained from DTC and neither PRIDCO nor the Underwriters take any responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 1997 Bonds. The Series 1997 Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 1997 Bond will be issued for each maturity of the Series 1997 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or for the benefit of 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 Securities Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission (the "SEC").

Purchases of the Series 1997 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1997 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1997 Bond (a "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive any confirmation from DTC of their purchases, but Beneficial Owners are 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 Series 1997 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Series 1997 Bonds, except in the event that use of the book-entry system for the Series 1997 Bonds is discontinued as described below.

To facilitate subsequent transfers, all Series 1997 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1997 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1997 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1997 Bonds are credited, which may or may not be in the Beneficial Owners. The 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 Cede & Co. If less than all of the Series 1997 Bonds of any maturity 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 maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 1997 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to PRIDCO as soon as possible after the applicable voting record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 1997 Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payment on the Series 1997 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on any such payable dates. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in 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 PRIDCO, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of PRIDCO or the Trustee, but disbursement of such payments to Direct Participants shall be the responsibility of DTC, and further disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

For every transfer of the Series 1997 Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as securities depository with respect to the Series 1997 Bonds at any time by giving reasonable notice to PRIDCO and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Series 1997 Bonds are required to be printed and delivered.

PRIDCO may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, definitive Series 1997 Bonds will also be printed and delivered.

PRIDCO and the Trustee will have no responsibility or obligation to such Direct Participants, Indirect Participants, or the persons for whom they act as nominees with respect to the payments to or the providing of notice for the Direct Participants, the Indirect Participants, or the Beneficial Owners. Payments made to DTC or its nominee shall satisfy the obligations of PRIDCO to the extent of such payments.

In the event that such book-entry only system is discontinued for the Series 1997 Bonds, the following provisions will apply to the Series 1997 Bonds: principal of the Series 1997 Bonds and redemption premium, if any, thereon will be payable in lawful money of the United States of America at the corporate trust office of the Trustee in New York, New York. Interest on the Series 1997 Bonds (other than the Capital Appreciation Bonds) will be payable on each January 1 and July 1, by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of PRIDCO maintained by the Trustee as of the close of business on the fifteenth day preceding such January 1 and July 1 as set forth in the Trust Indenture. Interest on such of the Series 1997 Bonds as are Capital Appreciation Bonds will be compounded on each January 1 and July 1 and payable as part of the Accreted Value at maturity or earlier redemption. The Series 1997 Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any multiple thereof (\$5,000 maturity amount and any multiple thereof in the case of Capital Appreciation Bonds). The transfer of Series 1997 Bonds will be registrable and the Series 1997 Bonds may be exchanged at the corporate trust office of the Trustee in New York, New York upon surrender of the Series 1997 Bonds together with an instrument of transfer satisfactory to the Trustee and the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange. No registration of transfer of a Series 1997 Bond is required to be made after such Series 1997 Bond has been selected for redemption.

Redemption Provisions

Optional Redemption. The 1997 Series A Bonds (except Capital Appreciation Bonds, which are not subject to redemption) maturing after July 1, 2007, may be redeemed at the option of PRIDCO prior to maturity, upon thirty days' prior notice by mail, from any moneys available therefor other than moneys deposited in the Sinking Fund in respect of an amortization requirement, either (i) in whole, on July 1, 2007, or on any date thereafter, or (ii) in part, in such order of maturity as directed by PRIDCO, on July 1, 2007, or on any interest payment date thereafter, at the following prices expressed as percentages of the principal amount to be redeemed plus accrued interest to the redemption date:

<u>Redemption Period</u>	<u>Redemption Price</u>
July 1, 2007 through June 30, 2008	101½ %
July 1, 2008 through June 30, 2009	100¾ %
July 1, 2009 and thereafter	100 %

Amortization Requirements. The 1997 Series A Term Bonds maturing on July 1, 2011, July 1, 2015, and July 1, 2021, shall be redeemed in part on January 1, 2010, January 1, 2012, and January 1, 2016, respectively, and on each interest payment date thereafter in the principal amounts equal to the respective amortization requirements for the six month period preceding such interest payment date (less the principal amounts of any Series 1997 A Term Bonds retired by purchase and otherwise subject to adjustment as provided in the Trust Indenture) from moneys in the Sinking Fund at par plus accrued interest to the date fixed for redemption, as follows:

General Purpose Revenue Term Bonds

Year	Bonds due 2011		Bonds due 2015		Bonds due 2021	
	January 1	July 1	January 1	July 1	January 1	July 1
2010	\$1,015,000	\$1,020,000				
2011	\$1,080,000	\$1,090,000				
2012			\$1,160,000	\$1,155,000		
2013			\$1,235,000	\$1,235,000		
2014			\$1,320,000	\$1,320,000		
2015			\$1,405,000	\$1,410,000		
2016					\$1,500,000	\$1,505,000
2017					\$1,605,000	\$1,605,000
2018					\$1,710,000	\$1,720,000
2019					\$1,835,000	\$1,830,000
2020					\$1,960,000	\$1,955,000
2021					\$2,090,000	\$2,090,000

Refunding Revenue Term Bonds

Year	Bonds due 2011		Bonds due 2015	
	January 1	July 1	January 1	July 1
2010	\$4,740,000	\$4,735,000		
2011	\$5,050,000	\$5,050,000		
2012			\$5,380,000	\$5,390,000
2013			\$5,750,000	\$5,750,000
2014			\$6,140,000	\$6,140,000
2015			\$5,025,000	\$5,030,000

The average life of the Series A General Purpose Revenue Term Bonds due July 1, 2011, July 1, 2015, and July 1, 2021 is 12.920 years, 15.984 years, and 21.095 years, respectively. The average life of the Series A Refunding Revenue Term Bonds due July 1, 2011 and July 1, 2015 is 12.919 years and 15.888 years, respectively.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

PRIDCO was established as a public corporation and a governmental instrumentality of the Commonwealth by the Act for the purpose of promoting the development of the economy of Puerto Rico by stimulating the formation of new local firms and encouraging firms in the United States and foreign countries to establish and expand operations in Puerto Rico. To accomplish its mission, PRIDCO maintains a continuing infrastructure development program, including facilities for lease or sale to qualified private industrial investors, and the construction of industrial facilities for lease. In addition, PRIDCO disburses legislative appropriations in accordance with various special incentives programs (described below) to assist manufacturers in offsetting allowable start-up costs. The basic purpose underlying PRIDCO's supporting role to Puerto Rico's economic development program is the creation of jobs and the consequent improvement of living standards in Puerto Rico.

Complementing PRIDCO's role in fostering Puerto Rico's economic development, the Economic Development Administration ("EDA"), a public agency of Puerto Rico, is in charge of attracting investment to the manufacturing and service sectors, facilitating the establishment of new entities, and the expansion of existing operations, thereby promoting different industries in Puerto Rico.

Proposed Reorganization

On August 25, 1997, legislation was introduced in the Puerto Rico Legislature for the purpose of reorganizing PRIDCO and consolidating the operations and activities of EDA into PRIDCO. Under the proposed legislation, EDA's authority, duties, and responsibilities would be transferred to PRIDCO as established by a reorganization plan. PRIDCO, however, would not assume any of EDA's existing and contingent liabilities. Pursuant to the proposed reorganization plan, PRIDCO's powers would be exercised by and its policies would be determined by a Board of Directors composed of seven members. Such members would include the President of GDB, the Puerto Rico Secretary of Treasury, the President of the Puerto Rico Planning Board, and three members of private industry to be appointed by the Governor with the advice and consent of the Puerto Rico Senate. PRIDCO's management believes that enactment of such proposed legislation would result in increased flexibility and efficiency and will enable PRIDCO to improve its ability to promote and develop new investment programs and make improvements to and lease its industrial facilities.

EDA's fiscal 1997-98 governmental budget appropriations are \$35,619,000, of which approximately \$19,291,000 are allocated to cover EDA's operating expenditures. The proposed legislation provides for continuing annual government contributions to PRIDCO to maintain funding of EDA's programs and related costs. Under the proposed legislation, the existing balances in EDA's 1997-98 budget and other available funds held by EDA will be transferred to PRIDCO.

PRIDCO is also proposing legislation providing for an early retirement option to PRIDCO employees that have 24.5 years of service or more. Under the proposed early retirement plan, eligible employees who elect to participate in the plan would be entitled to retirement benefits ranging from 65% to 75% of their average annual salary during their last five years of service. Assuming the enactment of the proposed reorganization, as many as 195 employees will be eligible to exercise such option to retire and, should all eligible employees elect such option, the cost of such early retirement plan is estimated at approximately \$20,000,000. Future annual payroll and fringe benefit savings depend upon the number of employees exercising the early retirement option. For example, if 50% of the eligible employees exercise the option to retire, expected payroll savings are estimated at \$2,600,000 annually.

Powers

Under the Act, PRIDCO has the power to make contracts, to acquire, own, sell and lease property, to borrow money and issue bonds or notes, to loan money, to acquire stock or securities, to acquire properties by eminent domain, to organize and control affiliated or subsidiary corporations, and to transfer or delegate any of its properties, powers or functions to such affiliates or subsidiaries.

Management and Personnel

PRIDCO's powers are vested in and exercised by the Administrator of EDA (the "Administrator"), who is appointed by the Governor subject to Senate confirmation, and who is the Chairman and the sole member of the Board and Chief Executive Officer of PRIDCO. The Administrator, in turn, is responsible for the selection and appointment of other PRIDCO principal officers. Resolutions of the Administrator authorizing issuance of PRIDCO bonds require the approval of any two of the following: the Secretary of State, the Secretary of the Treasury, the President of GDB, or the President of the Puerto Rico Planning Board, and must also be approved by the Board of Directors of GDB. As a matter of policy, all capital expenditures of PRIDCO in excess of \$600,000 are subject to approval by an Industrial Investment Committee consisting of the Secretary of State, as Chairman, the Secretary of the Treasury, the President of Economic Development Bank, the President of the Planning Board, the Administrator, the President of GDB, the Director of the Office of Management and Budget and the Special Assistant to the Governor for Economic Affairs.

The following are PRIDCO's principal officers:

Jaime Morgan Stubbe, Esq. is the Administrator of EDA and, therefore, the Chairman and the sole member of the Board and Chief Executive Officer of PRIDCO. Prior to joining EDA and PRIDCO, Mr. Morgan Stubbe served as Executive Director of the Puerto Rico Maritime Shipping Authority (Navieras de Puerto Rico) after being named to that position in 1993 by Governor Pedro Rosselló. He was previously engaged in the private practice of law specializing in Corporate and Transportation Law. Mr. Morgan Stubbe received an A.B. in International Relations from Tulane University (1980) and earned a Juris Doctor Degree from the University of Puerto Rico's School of Law (1984).

José M. de la Vega, CPA is President, General Manager, and Chief Operating Officer of PRIDCO. He manages PRIDCO's day-to-day operations with the assistance of several Vice Presidents and an Executive Committee composed of the heads of the functional units of PRIDCO. Mr. de la Vega previously served as Chief Financial Officer and Executive Vice President of PRIDCO and Deputy Administrator of EDA. Prior to joining EDA/PRIDCO, he served as Deputy Executive Director of Finance (1993-94) and later Executive Director of the Puerto Rico Maritime Shipping Authority (1994-95). Before joining the public sector in 1993, Mr. de la Vega worked at the accounting firm of KPMG Peat Marwick (1985-93).

Josué Aquino, CPA is PRIDCO's Executive Vice President. He supervises various departments, divisions, and subsidiaries, particularly in the Development and Finance area. Mr. Aquino served as Comptroller of the Puerto Rico Tourism Company (1994-95) and the Puerto Rico Ports Authority (1993). From 1990 to 1993, he was Auditor and Tax Specialist at KPMG Peat Marwick. Mr. Aquino earned a Bachelor of Science in Accounting from University of Kentucky (1990).

Alberto J. Rivera is PRIDCO's Vice President of Finance and the general financial executive officer. He is responsible for the overall supervision and control of PRIDCO's finances, the conservation and collection of funds, and ensuring compliance with PRIDCO's financial policies, programs, practices, and procedures. Mr. Rivera previously served as Controller of PRIDCO since November 1995. Before joining PRIDCO, Mr. Rivera was an Audit Consultant with Arthur Andersen LLP from 1992 to 1995. Mr. Rivera received a Bachelor of Science with a major in Accounting and a minor in Business Law from Bentley College (1992).

Carmen Sánchez, Esq. is PRIDCO's Secretary and General Counsel. She is in charge of all legal affairs, and as such is responsible for furnishing legal advice or assistance to all executive officers and in turn, to all functional units of PRIDCO. She also serves as Secretary to PRIDCO's Board of Directors. Prior to joining PRIDCO, Ms. Sánchez was General Counsel for the Puerto Rico Ports Authority and Assistant Legal Counsel for FirstBank. Ms. Sánchez received a B.B.A. degree with a major in Finance from the University of Puerto Rico (1982), a J.D. from the InterAmerican University School of Law (1986) and a LL.M. in Banking Law Studies from Boston University (1987).

Pedro Notario, CPA is PRIDCO's Treasurer and reports directly to the Vice President of Finance. He has custody of all the funds and securities of PRIDCO. Prior to joining PRIDCO, Mr. Notario worked as Technical Advisor for Internal Revenues to the Secretary of the Treasury of Puerto Rico. Mr. Notario worked for five years as Tax Consultant for Deloitte & Touche LLP and Arthur Andersen LLP. He received a B.S. degree with a major in accounting from the University of Pennsylvania (1991) and is a Certified Public Accountant since May 1991.

Georgina L. Vega, CPA is PRIDCO's Comptroller and reports directly to the Vice President of Finance. She is PRIDCO's general accounting officer. Ms. Vega was a Tax Manager with Coopers & Lybrand until February of 1997 when she joined PRIDCO. Ms. Vega graduated from Bentley College in May 1989 with a Bachelor of Science in Accountancy.

As of June 30, 1997, PRIDCO had 403 permanent employees, 224 of whom belong to either the Puerto Rico Industrial Development Company Independent Employees Union or the Auditors Union. The remaining 179 are non-union managerial employees. The unions have contracts which commenced on July 1, 1997 and January 1, 1995, respectively, and expire on June 30, 2001 and December 30, 1997, respectively. The Independent Employees Union is composed of two separate contracting units, namely office employees and project inspectors. The Auditors Union has just one contracting unit. Each contracting unit has a separate collective bargaining agreement. These agreements provide for approximately 5% salary increases throughout the term thereof.

PRIDCO's corporate and executive offices are located at 355 Franklin D. Roosevelt Avenue, Hato Rey, Puerto Rico 00918; telephone (787) 758-4747. The mailing address is PO Box 362350, San Juan, Puerto Rico 00936-2350.

Industrial Facilities

PRIDCO constructs general purpose and special industrial buildings for lease and sale to public and private enterprises. As of June 30, 1997, PRIDCO had constructed or acquired approximately 32,268,000 square feet of space in industrial buildings. Of this amount, approximately 7,484,000 square feet had been sold to the private sector, approximately 20,813,000 square feet were under lease, approximately 2,009,000 square feet were reserved or under negotiation, approximately 954,000 square feet consist of buildings used for PRIDCO operations or not available for lease, and 1,008,000 square feet were vacant and available for lease.

General purpose factory buildings and special industrial buildings are constructed based on demand. Located on sites with access to adequate transportation systems, public utilities and other services, such buildings are usually constructed on four-inch, reinforced concrete slabs with 150 pounds per square foot of floor capacity. Walls are six-inch concrete blocks; other features include steel columns and beams, steel joists and insulated roof-decks. PRIDCO's buildings are equipped with exhaust fans, and tenants can readily install, at their own cost, air conditioning and sprinkler systems, if required by law or desired by the tenant.

Historically, PRIDCO constructed general purpose buildings in advance of demand. However, its current practice is not to build in advance of demand. Instead, PRIDCO has developed a new prototype building which may be modified for the specific needs of any given tenant. Buildings are now constructed upon agreement by PRIDCO and prospective tenants. Such buildings have been successfully introduced to new industrial firms, improving the marketing of PRIDCO properties. In addition, engineering drawings have been developed to raise the roof height of existing low bay buildings to 24 feet, making these properties more attractive to industry

standards and extending their useful life. Delivery time, an important requirement of a prospective tenant, is under constant supervision and study. In-house project evaluation, permitting, and building delivery time have been greatly reduced, applying modern state of the art technology and property management techniques.

PRIDCO also constructs special purpose facilities designed for certain particular kinds of operations. An increasing proportion of Puerto Rico's industrial development is represented by larger, more capital intensive industries, such as pharmaceuticals, electrical and electronic machinery, and precision and scientific instruments, which require special facilities. Design and construction of such facilities are coordinated by PRIDCO with the private companies pursuant to a previously agreed cost reimbursement and lease back contract. A minimum 10-year lease contract is required for construction of general purpose factory buildings and special facilities, during which period PRIDCO recovers its investment in full.

The useful life of PRIDCO's buildings at time of construction is stated at 50 years for accounting purposes, although PRIDCO renovates its facilities periodically to extend their useful life. Through PRIDCO's Construction and Maintenance Department, the industrial facilities are regularly inspected in order to assess their actual condition and verify whether repair and maintenance work is necessary. PRIDCO has 20 full time facility inspectors who carry out this task.

The following tables show PRIDCO's historical and projected construction of industrial facilities in square feet.

Table IV		Table V	
Historical Construction of Industrial Facilities Completed for Fiscal Years Ended June 30,		Projected Construction of Industrial Facilities to be Completed During Fiscal Years Ending June 30,	
Year	Area Square Feet	Year	Area Square Feet
1993	205,091	1998	372,566
1994	159,187	1999	439,999
1995	5,460	2000	333,000
1996	231,598	2001	373,000
1997	172,400	2002	398,000
TOTAL	773,736	TOTAL	1,916,565

For the purpose of establishing the rental rates applicable to leases of its general purpose industrial buildings, PRIDCO has divided Puerto Rico into five industrial zones based on the level of economic development in each geographic area. Lower rental rates apply to buildings located in less developed zones to encourage industrialization therein. Prevailing rental rates for general purpose buildings range from \$1.75 per square foot in the lowest rental zone to \$4.30 per square foot in the highest rental zone. These rates are in effect for the first five years of the lease term, with an additional 25% added in the remaining five years. Typically, the annual rental rate for newly constructed general purpose and special industrial buildings is equal to 10% of the sum of the market value of the land and the cost of construction, divided by gross square feet of construction. In addition to the fixed rental rate, the tenant is responsible for the payment of necessary repairs, replacements and maintenance that are not due to structural defects latent at the time of the execution of the lease, and for property and liability insurance.

PRIDCO is not subject to any regulatory supervision in the establishment of its rental rates. Its rate schedules reflect market and economic conditions and are very competitive and highly attractive relative to other rental rates offered by private lessors within Puerto Rico. PRIDCO continues to strive for higher average rentals per square foot as new leases are entered into with tenants occupying recently constructed buildings and as leases expire and are renegotiated with existing tenants.

Although some industrial firms construct their own facilities or buy or lease them from private real estate firms, a substantial portion of EDA promoted industries lease plants from PRIDCO. PRIDCO estimates that it owns approximately 91% of the total industrial space available for lease in Puerto Rico.

The following table presents, for each of the past five fiscal years, the amount of square feet rented, the annual rental and the average rental per square foot with respect to leases signed by new PRIDCO industrial tenants. It should be noted that the table does not include renewed leases with existing tenants. In such cases, rental rates will be determined by the general PRIDCO rental schedule then in effect.

Table VI — Certain Details Regarding New Industrial Leases

Fiscal Year Ended June 30,	Square Feet Rented	Annual Rental	Average Annual Rental Per Square Foot
1993	1,495,482	\$3,290,853	\$2.20
1994	1,130,193	\$3,379,278	\$2.99
1995	1,556,990	\$4,530,785	\$2.91
1996	918,726	\$2,875,613	\$3.13
1997	1,575,474	\$4,411,326	\$2.80

The following table contains PRIDCO's 50 leading industrial lessees, many of which are affiliates of large, well-established United States and foreign companies. The products manufactured by these companies are primarily designed for United States and other markets and are integrated into the companies' general operations. No one single industrial lessee represents more than 5% of the total rental income derived by PRIDCO from its industrial leases, and no single industrial lease represents more than 2.5% of the total rental income derived by PRIDCO from its industrial leases.

**Table VII — Fifty Leading Industrial Lessees
(as of June 30, 1997)**

	Parent Affiliate or Principal Firm	Number of Leases	Square Feet	Annual Rental		Parent Affiliate or Principal Firm	Number of Leases	Square Feet	Annual Rental
1.	Eaton Corporation*	38	813,159	\$2,223,997	26.	H.H. Brown Shoe Co., Inc.	7	128,433	\$306,499
2.	General Electric Company*	39	750,490	\$1,973,370	27.	Security Plastic Inc.	7	105,907	\$284,428
3.	Sara Lee Corp.*	34	843,647	\$1,972,233	28.	Maidenform Inc.	11	141,749	\$275,306
4.	Baxter International Inc.*	37	775,137	\$1,731,197	29.	Echlin Mfg. Co.*	6	152,259	\$266,453
5.	Westinghouse Elect. Corp.*	23	345,459	\$1,151,917	30.	Bain Capital, Inc.	5	115,079	\$266,443
6.	U.S. Surgical Corporation*	9	311,052	\$1,093,267	31.	Gibraltar Industries, Inc.	9	134,872	\$262,164
7.	Johnson & Johnson*	25	372,609	\$896,395	32.	Stryker Corp.	6	106,142	\$261,299
8.	Motorola Inc.*	10	180,221	\$643,132	33.	Essilor International	3	90,900	\$252,170
9.	DSC Communication Corp.*	4	163,971	\$567,996	34.	Northrop Grunman Elect. Inc.*	9	118,914	\$251,355
10.	Avon Products Inc.*	7	207,777	\$560,226	35.	Alruss Extrusion/Lausell	5	80,530	\$245,101
11.	Nypro Inc.	8	162,610	\$538,613	36.	Thomas & Betts Corp.*	3	67,531	\$243,112
12.	Propper International Co.	24	314,939	\$523,547	37.	Paco Pharmaceutical Services	6	63,071	\$234,625
13.	P.L. Industries, Inc.	17	232,588	\$511,956	38.	Communication System Inc.	4	64,847	\$233,449
14.	Circo Craft Co. Inc.	3	184,701	\$507,928	39.	Combe Incorporated	5	61,237	\$220,531
15.	Phillip Van-Heusen Corp.*	15	222,316	\$483,151	40.	Garment Corp. of America	8	99,942	\$215,511
16.	HJ Heinz Co.*	6	136,744	\$430,673	41.	Penn State Coats & Aprons	7	100,863	\$214,994
17.	Colgate Palmolive Co.*†	2	104,114	\$420,311	42.	Owens Illinois Inc.*	2	58,524	\$210,685
18.	Standard Motor Products Inc.	3	137,915	\$413,749	43.	Lutania Mills, Inc.	4	134,643	\$203,248
19.	IVAX Corp.*	8	179,779	\$407,815	44.	Federal Express*	1	39,351	\$196,757
20.	Insilco Corp.	12	201,858	\$385,140	45.	Sensormatic Electronic Corp.*	3	84,559	\$192,870
21.	Aramark*	8	159,109	\$381,863	46.	Hampshire Design Knitting Mills	16	213,781	\$190,368
22.	General Instrument Corporation*	10	138,986	\$368,865	47.	Manufacturing Tech. Serv. Inc.	2	50,700	\$190,185
23.	Dexter Shoe Co.*	15	174,645	\$364,321	48.	Sunoco Prod. of P.R.*	2	68,135	\$187,371
24.	Siecor Corp.	6	103,481	\$330,867	49.	Sun-Ray Setting Inc.	5	86,434	\$180,769
25.	Dooney & Bourke, Inc.	10	152,092	\$324,581	50.	Granada Sales Inc.	4	56,540	\$178,101

* Fortune 1,000 Company

† Lessee of property owned by PRIICO

PRIDCO, as part of its regular operations, has selectively offered for sale its industrial buildings and land. As the following table shows, during the past five fiscal years ended June 30, 1997, PRIDCO has received proceeds from such sales amounting to \$61,080,000 and has realized total gains from such sales of approximately \$36,437,000.

Table VIII — PRIDCO Sales of Properties*
(dollars in thousands)

Fiscal Year	Selling Price			Cost			Gain		
	Land	Building	Total	Land	Building	Total	Land	Building	Total
1993	\$5,307	\$4,066	\$9,373	\$169	\$542	\$711	\$5,138	\$3,524	\$8,662
1994	4,468	4,547	9,015	2,312	1,489	3,801	2,156	3,058	5,214
1995	8,791	5,827	14,618	2,489	1,063	3,552	6,302	4,764	11,066
1996	18,490	3,785	22,275	10,694	2,596	13,290	7,796	1,189	8,985
1997	3,536	2,263	5,799	1,964	1,325	3,289	1,572	938	2,510
Total	\$40,592	\$20,488	\$61,080	\$17,628	\$7,015	\$24,643	\$22,964	\$13,473	\$36,437

* Includes Trusteed and Eligible Properties.

Since 1996, PRIDCO has been implementing a new policy on the sale of its industrial properties, limiting such sales to properties that are not income producing, are located in areas of excess supply or have limited industrial use. Such policy also limits the sale of land to undeveloped land for construction of private industrial facilities. In addition, as the table below illustrates, PRIDCO's inventory of properties available for lease has continued to grow despite its sales of properties (measured in square feet and investment).

Table IX — PRIDCO Sales and Construction Analysis of Industrial Buildings
(excluding undeveloped land)
Square Feet Sold v. Square Feet Constructed
(dollars in thousands)

Fiscal Year	Square Feet Sold	Proceeds from Sale of Properties	Square Feet Constructed	Investment
1993	188,516	\$4,066	205,091	\$5,333
1994	134,259	4,547	159,187	6,099
1995	173,705	5,827	5,460	168
1996	155,613	3,785	231,598	5,725
1997	51,178	2,263	172,400	8,014
	703,271	\$20,488	773,736	\$25,339

Industrial Parks

PRIDCO has over 320 industrial parks, of which 214 are small parks with between one and five lots, and 106 are medium and large sized parks with over six lots. Nine of such medium and large parks are large industrial complexes consisting of over 40 lots with areas of one and one-half acre each. As part of its industrial park development program, PRIDCO provides the required infrastructure. PRIDCO also assists private entities in the development of private industrial parks to which PRIDCO contributes technical and advisory assistance. PRIDCO's capital improvements program contemplates the acquisition and development of land (including industrial parks) for industrial use on demand.

Foreign Trade Zones

PRIDCO operates Foreign Trade Zone No. 7 located in Mayagüez. Industrial tenants in this zone, utilizing domestic and/or foreign source raw materials or merchandise, are able to manufacture goods for foreign markets without payment of United States customs duties. Foreign source products entering Puerto Rico or the United States from the zone are subject to duties. The zone currently has 42 acres of land and 17 buildings, including an administration building and two private structures.

Corporations unable to operate within Foreign Trade Zone No. 7 may enjoy the benefits of operating within a foreign trade zone through a sub-zone project, which includes all or a portion of a corporation's operating facilities. Such sub-zones operate under a grant obtained by PRIDCO for Foreign Trade Zone No. 7, but a separate approval must be obtained from the Foreign Trade Zone Board. PRIDCO must prove that a corporation may not be accommodated at an existing zone site and that operation at another site is in the public interest. Presently, there are four sub-zones approved under Foreign Trade Zone No. 7 (of which three are active) and an additional sub-zone application is pending approval.

PRIDCO is also contemplating the expansion of Foreign Trade Zone status to cover other PRIDCO properties. By reducing business operational costs, PRIDCO believes such expansion of Foreign Trade Zone status will be an additional incentive for tenants of PRIDCO's properties.

Tourism Operations

Pursuant to an Executive Order from the Governor of Puerto Rico in fiscal year 1993, PRIDCO undertook the sale of its tourist properties. In anticipation of the sale, PRIDCO transferred its tourist properties and activities to a wholly-owned subsidiary, Hotel Development Corporation ("HDC"). Upon the transfer, a loss of \$145,229,000 was recorded to write down the tourism properties to their estimated net realizable value and to reflect the results of operations for 1993. During 1994, PRIDCO transferred all assets and liabilities of HDC to the Puerto Rico Tourism Company and recorded an additional loss from discontinued operations of \$8,219,000. Subsequent to June 30, 1994, PRIDCO has neither received any revenues nor incurred in any additional expenses related to its discontinued tourism operations.

Other Activities

PRIDCO has other activities and subsidiaries organized for specific purposes. Any indebtedness or obligations incurred by PRIDCO in connection with these activities are subordinate to its obligation to provide additional funds for the payment of the principal of and interest on the Bonds. See Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING THE PROPOSED SUPPLEMENTAL INDENTURES — Collection and Disposition of Revenues—Additional Funds To Be Made Available by PRIDCO (Sec. 405)."

PRIICO, a wholly-owned subsidiary of PRIDCO, owns a 170,000 square foot office building in San Juan, Puerto Rico. The headquarters for PRIDCO, EDA and the Tax Exemption Office are located in this building. The 1997 Series B Bonds will be issued to provide a capital contribution to PRIICO, to enable it to refund in their entirety and defease the Series 1990 PRIICO Bonds which financed the cost of this building.

In addition, on June 6, 1997, PRIICO obtained a loan in the amount of \$10,000,000 to restructure an existing debt and finance the construction of an expansion to a building located in the Municipality of Juncos, leased to a subsidiary of Colgate-Palmolive. Similarly, on September 23, 1997, PRIICO obtained a line of credit of \$5,500,000 to finance the construction of a research and development center to be leased to MOVA Pharmaceutical Corporation, a locally owned pharmaceutical company, that among other things, manufactures medical products. PRIICO's lease revenues from both industrial facilities are assigned in full to repay its outstanding indebtedness and are sufficient to repay such loans. While PRIDCO has guaranteed the repayment of the principal outstanding balance of these loans, the guarantee is subordinated to PRIDCO's obligations under the Trust Indenture.

TAX AND OTHER INCENTIVES

The manufacturing sector in Puerto Rico has historically benefitted from various federal and Puerto Rico tax incentives, most notably Puerto Rico's Industrial Incentives Program, and Sections 30A and 936 of the Internal Revenue Code of 1986, as amended (the "Code").

Industrial Incentives Program

Since 1948, Puerto Rico has had various industrial incentives laws designed to stimulate industrial investment. Under these laws, companies engaged in manufacturing and certain other designated activities were eligible to receive full or partial exemption from income, property and certain local taxes.

On January 24, 1987, the Governor of Puerto Rico signed into law a new industrial incentives law, Act No. 8 of 1987, known as the Puerto Rico Tax Incentives Act (the "1987 Act"). The tax exemption benefits provided by the 1987 Act are substantially more favorable than those provided by its predecessor, the Industrial Incentives Act of 1978 (the "1978 Act"). The activities eligible for exemption under the 1987 Act include manufacturing, certain designated services for markets outside Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico, and laboratories for scientific and industrial research, among other eligible activities.

The 1987 Act provides a fixed 90% exemption from income and property taxes and a 60% exemption from municipal license taxes during a 10, 15, 20 or 25-year period, depending on the zone where the operations are located. This initial exemption period may be extended for an additional 10 years at lower exemption rates. The 1987 Act also provides a special deduction equal to 15% of the production payroll for companies whose net income from operations is less than \$30,000 per production job. This special benefit is designed to attract and maintain labor intensive operations in Puerto Rico. The passive income from certain qualified investments in Puerto Rico and the instruments evidencing such investments are fully exempt from income and property taxes, respectively. In addition, companies making such investments for fixed periods of not less than five years are eligible to reduce the tollgate tax imposed on dividends and liquidating distributions from a maximum rate of 10% to zero, depending on the amount and term of the investment.

Proposed Tax Incentives Legislation

Recently, the Governor of Puerto Rico submitted to the Puerto Rico Legislature a new tax incentives legislation aimed at attracting and retaining investment in Puerto Rico. If enacted, the new tax benefits proposed would be available to eligible business and service operations for offshore markets that establish in Puerto Rico after December 31, 1997, and to companies currently enjoying tax exemption under the 1987 Act that choose to renegotiate their tax exemption under such proposed legislation. Reduced benefits would be also available for existing and new tax exempt operations at the expiration of their tax exemption periods. The new income tax regime would consist of a fixed income tax rate ranging from 7% to 2% and full exemption from tollgate taxes, upon the repatriation of tax exempt earnings. The income tax cost would be further reduced by certain special deductions and tax credits, including (i) the option to deduct the investment in buildings, machinery and equipment in the taxable year that the expense is incurred, instead of capitalizing and depreciating such assets during their useful lives; (ii) a special deduction amounting to twice the expenses incurred in training to improve productivity and quality control, promote total quality management and improve the communication skills of employees, in excess of the annual average of such expenditures incurred during the last three taxable years ended prior to January 1, 1998; and (iii) twice the expenses incurred in research and development of new products or industrial processes, or in the improvement of such processes. The proposed legislation also includes a credit against the fixed income tax rate to further reduce the exempt businesses' income tax burden, while promoting the purchase of products manufactured in Puerto Rico, and particularly, products made from recycled materials.

In addition, under the proposed legislation the fixed income tax rate is generally 7%, although it may be reduced under special circumstances to a minimum of 2%. The passive income derived from the investment of tax exempt funds in Puerto Rico financial institutions, obligations of the government of Puerto Rico and other designated investments continues to be fully exempt from income and municipal license taxes. Under the Governor's proposal, the real and personal property and municipal tax exemption is essentially the same as the one currently enjoyed by tax exempt operations. Generally, the percentages of exemption for property and municipal license taxes continue to be 90% and 60%, respectively. Intangibles, such as patents and trademarks, continue to be fully exempt.

Existing tax exempt operations may also avail themselves of the new tax program, either by waiting until the expiration of their tax grants to enjoy reduced benefits under a 10-year extension period, or by renegotiating their tax grant to enjoy benefits under the proposed legislation as soon as the law is enacted.

Under the first option the income tax rate will generally be 10%. Dividends and liquidating distributions out of exempt income accumulated prior to the extended period will be subject to the tax imposed by the industrial incentives act governing the period when such income was accumulated while distributions of exempt income accumulated during the extended period will be fully exempt from income tax. Generally, exempted businesses will also enjoy 50% exemption from municipal and property taxes and all other tax benefits available under the new incentives package. To qualify for the foregoing benefits, at least 80% of the average employment for the three taxable years ending prior to the commencement of the extended period must be maintained during such period.

Under the second option, the companies may renegotiate their grants to obtain essentially the same benefits available to new operations, except that the fixed income tax rate, the special deductions and credits and the tollgate tax exemption. will generally be applicable only to exempt income in excess of the average exempt income for the three taxable years with the highest exempt income among the five taxable years immediately preceding the filing of the renegotiation application. Such average exempt income will continue to be subject to the 4.5% income tax rate and the 10% tollgate tax upon dividend and liquidating distributions generally applicable to exempt businesses. To be able to renegotiate their grants, such exempted businesses must agree to increase by at least 25% their average employment for the three taxable years ending prior to the request for renegotiation, or their investment in Puerto Rico as of January 1, 1998. If an exempted business does not comply with any of the foregoing requirements, it is still eligible to renegotiate its grant provided the Secretary of State, the Secretary of the Treasury, and the Administrator of the Economic Development Administration concur that the renegotiation is in the best social or economic interest of Puerto Rico. Upon the expiration of the period of exemption currently applicable to the renegotiated grantees of tax exemption, all of their exempt income will enjoy the special fixed income tax rate and the special deductions and credits. Also, dividends and liquidating distributions out of exempt income accumulated prior to the effective date of the renegotiation and the three year base period exempt income would be subject to the applicable tollgate tax, whereas those out of incremental exempt income will be exempt from tollgate taxes.

Special Incentives Program

The Special Incentives Program, funded by annual appropriations by the Puerto Rico Legislature, is another aspect of Puerto Rico's support to its industrial development. The program is tailored to achieve three main objectives: (i) to expedite the establishment, location and expansion of United States and foreign industries in Puerto Rico by defraying start-up costs incurred by private investors; (ii) to encourage and assist Puerto Rican investors in the establishment and expansion of manufacturing operations making products for sale primarily in the local and mainland markets; and (iii) to induce manufacturers to establish operations in all areas of the island by making larger grants in regions with higher unemployment.

Negotiation and approval of incentive grants are handled by EDA. Actual disbursements are managed by PRIDCO, which is charged with supervising compliance with the terms of each grant by recipient manufacturers. During fiscal year 1997, PRIDCO disbursed cash incentives totaling \$16,433,211. Since 1993 and through June 30, 1997, PRIDCO has disbursed approximately \$73,144,048. This has helped private investors to offset start-up expenditures involving, among other things, machinery and equipment, transportation costs, employee and supervisory training programs, and industrial rentals as well as to improve the infrastructure of certain PRIDCO buildings. During fiscal year 1998, it is estimated that PRIDCO will disburse an additional \$20,000,000 under this program.

PRIDCO also administers the Research and Development Incentives Program which is funded from payments made by exempt businesses under the provisions of the 1987 Act. This program encourages companies to conduct and invest in research and development activities in Puerto Rico. In 1997, PRIDCO incorporated a subsidiary named Puerto Rico Industrial Incentives Fund Inc. ("PRIIF") for the purpose of entering into financial transactions with tax exempt businesses and generate funds that PRIIF intends to use to provide additional incentives. Funding for PRIIF will not be provided from PRIDCO funds and as such will not impact PRIDCO's income or its available funds.

Sections 30A and 936 of the Code

For many years, United States companies operating in Puerto Rico enjoyed a special tax credit that was available under Section 936 of the Code. Originally, the credit provided an effective 100% federal tax exemption for operating and qualifying investment income from Puerto Rico sources. Amendments to Section 936 made in 1993 (the "1993 Amendments") instituted two alternative methods for calculating the tax credit and limited the amount of the credit that a qualifying company could claim. These limitations were based on a percentage of qualifying income (the "percentage of income limitation") and on qualifying expenditures on wages and other wage related benefits (the "economic activity limitation," also known as the "wage credit limitation"). As a result of amendments incorporated in the Small Business Job Protection Act of 1996 enacted by the United States Congress and signed into law by President Clinton on August 20, 1996 (the "1996 Amendments"), the tax credit is now being phased out over a ten-year period for existing claimants and is no longer available for corporations that established operations in Puerto Rico after October 13, 1995 (including existing Section 936 Corporations [as defined below] to the extent substantially new operations are established in Puerto Rico). The 1996 Amendments also moved the credit based on the economic activity limitation to Section 30A of the Code and phased it out over 10 years. In addition, the 1996 amendments eliminated the credit previously available for income derived from certain qualified investments in Puerto Rico. The Section 30A Credit and the remaining Section 936 credit are discussed below.

Section 30A. The 1996 Amendments added a new Section 30A to the Code. Section 30A permits a "qualifying domestic corporation" ("QDC") that meets certain gross income tests (which are similar to the 80% and 75% gross income tests of Section 936 of the Code discussed below) to claim a credit (the "Section 30A Credit") against the federal income tax imposed on taxable income derived from sources outside the United States from the active conduct of a trade or business in Puerto Rico or from the sale of substantially all the assets used in such business ("possession income").

A QDC is a United States corporation which (i) was actively conducting a trade or business in Puerto Rico on October 13, 1995, (ii) had a Section 936 election in effect for its taxable year that included October 13, 1995, (iii) does not have in effect an election to use the percentage limitation of Section 936(a)(4)(B) of the Code, and (iv) does not add a "substantial new line of business."

The Section 30A Credit is limited to the sum of (i) 60% of qualified possession wages as defined in the Code, which includes wages up to 85% of the maximum earnings subject to the OASDI portion of Social Security taxes plus an allowance for fringe benefits of 15% of qualified possession wages, (ii) a specified percentage of depreciation deductions ranging between 15% and 65%, based on the class life of tangible property, and (iii) a portion of Puerto Rico income taxes paid by the QDC, up to a 9% effective tax rate (but only if the QDC does not elect the profit-split method for allocating income from intangible property).

A QDC electing Section 30A of the Code may compute the amount of its active business income, eligible for the Section 30A Credit, by using either the cost sharing formula, the profit sharing formula or the cost-plus formula. To be eligible for the first two formulas, the QDC must have a significant presence in Puerto Rico.

In the case of taxable years beginning after December 31, 2001, the amount of possession income that would qualified for the Section 30A Credit would be subject to a cap based on the QDC's possession income for an average adjusted base period ending before October 14, 1995.

Section 30A applies only to taxable years beginning after December 31, 1995 and before January 1, 2006.

Section 936. Under Section 936 of the Code, as amended by the 1996 Amendments, and as an alternative to the Section 30A Credit, United States corporations that meet certain requirements and elect its application ("Section 936 Corporations") are entitled to credit against their United States corporate income tax, the portion of such tax attributable to income derived from the active conduct of a trade or business within Puerto Rico ("active business income") and from the sale or exchange of substantially all assets used in the active conduct of such trade or business. To qualify under Section 936 in any given taxable year, a corporation must derive for the three-year period immediately preceding the end of such taxable year, (i) 80% or more of its gross income from sources within Puerto Rico, and (ii) 75% or more of its gross income from the active conduct of a trade or business in Puerto Rico. Under Section 936, a Section 936 Corporation may elect to compute its active business income, eligible for the Section 936 credit, under one of the following formulas described above for a QDC electing Section 30A.

As a result of the 1993 Amendments and the 1996 Amendments, the Section 936 credit is only available to companies that elect the percentage of income limitation and is limited in amount of 40% of the credit allowable prior to the 1993 Amendments, subject to a five-year phase-in period from 1994 to 1998 during which period the percentage of the allowable credit is reduced from 60% to 40%. For taxable years beginning on or after 1998, the possession income subject to the 936 credit will be subject to a cap based on the Section 936 Corporation's possession income for an average adjusted base period ending on October 14, 1995. The 936 credit is eliminated for taxable years beginning in 2006.

Outlook. To date, the 1996 Amendments have not had an adverse impact on PRIDCO's financial condition or results of operations. It is not possible at this time to determine the long-term effect of the enactment of the 1996 Amendments on the Puerto Rico economy and on the demand for industrial space in Puerto Rico. PRIDCO does not believe that the enactment of the 1996 Amendments will have a short-term or medium-term material adverse effect on the results of its operations or the financial condition of PRIDCO. PRIDCO further believes that during the phase-out period, sufficient time exists to implement additional incentive programs to safeguard Puerto Rico's competitive position.

DEBT AND CAPITAL ACCOUNTS

PRIDCO obtains funds for capital improvements from borrowings, government contributions, and internally generated funds. See "CAPITAL IMPROVEMENTS PROGRAM." The following table sets forth the debt and capital accounts of PRIDCO as of June 30, 1997, and as adjusted for the issuance of the Series 1997 Bonds. Giving effect to such adjustment, total debt is equal to 36.6% of total debt and capital accounts.

Table X — Debt and Capital Accounts
(dollars in thousands)

	June 30, 1997	As Adjusted*
Debt: ¹		
Bonds	\$158,394	\$207,389
GDB Line of Credit ²	25,000	-
Other	2,053	2,053
TOTAL	185,447	209,442
Contributed Capital and Retained Earnings:		
Contributed Capital ³	314,473	314,473
Retained Earnings	47,821	47,821
TOTAL	362,294	362,294
Total Debt and Capital Accounts	\$547,741	\$571,736

* As adjusted to reflect the issuance of the Series 1997 Bonds.

¹ Does not include debt incurred by PRIICO and other subsidiaries, other than the PRIICO Series 1990 Bonds.

² The GDB line of credit will be paid with the proceeds of the Series 1997 Bonds.

³ Includes nonreimbursable government contributions from agencies of the United States and Puerto Rico.

Fixed Assets

As of June 30, 1997, the book value of PRIDCO's assets was \$601,355,000, including \$405,582,000 for property and equipment and \$111,202,000 for land held for improvement or sale. Fixed assets are stated at cost, with property and equipment depreciated over their estimated useful lives. See Appendix II — "AUDITED FINANCIAL STATEMENTS."

In the opinion of PRIDCO, the replacement and market values of property and equipment and the market value of land are substantially greater than their book values.

PRINCIPAL AND INTEREST REQUIREMENTS

Principal and Interest Requirements for any fiscal year means the sum of the amounts required to pay: (i) the interest on all outstanding serial Bonds which is payable on any date after July 1 during such fiscal year and on July 1 in the following fiscal year, (ii) the principal of all outstanding serial Bonds which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year, (iii) the interest on all outstanding term Bonds which is payable on any date after July 1 during such fiscal year and on July 1 in the following fiscal year, and (iv) the amortization requirements for the term Bonds for such fiscal year (but excluding in all cases the Defeased Bonds). The Trust Indenture provides for assumptions to be used in computing Principal and Interest Requirements in the case of Variable Rate Bonds, Put Bonds, Extendible Maturity Bonds, Capital Appreciation Bonds, and Designated Maturity Bonds (as each of such terms is defined in the Trust Indenture). See Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING THE PROPOSED SUPPLEMENTAL INDENTURES." The following table shows Principal and Interest Requirements for each fiscal year on account of the outstanding Bonds and the Series 1997 Bonds.

Table XI — Principal and Interest Requirements*

Fiscal Year ending June 30,	Outstanding Bonds ¹	Series 1997 Bonds			
		Maturity and Amortization Requirements	Interest	Principal and Interest Requirements	All Bonds
1998	\$10,465,858		\$6,343,036	\$6,343,036	\$16,808,894
1999	\$8,016,376	\$1,920,000	\$8,919,895	\$10,839,895	\$18,856,271
2000	\$8,042,933	\$2,010,000	\$8,804,695	\$10,814,695	\$18,857,628
2001	\$8,048,870	\$2,130,000	\$8,682,085	\$10,812,085	\$18,860,955
2002	\$8,051,190	\$2,255,000	\$8,550,025	\$10,805,025	\$18,856,215
2003	\$8,047,860	\$2,405,000	\$8,409,088	\$10,814,088	\$18,861,948
2004	\$8,046,378	\$2,555,000	\$8,257,573	\$10,812,573	\$18,858,950
2005	\$8,050,168	\$2,715,000	\$8,095,330	\$10,810,330	\$18,860,498
2006	\$8,048,428	\$2,890,000	\$7,921,570	\$10,811,570	\$18,859,998
2007	\$8,055,150	\$3,065,000	\$7,735,165	\$10,800,165	\$18,855,315
2008		\$11,320,000	\$7,535,940	\$18,855,940	\$18,855,940
2009		\$11,320,000	\$7,535,940	\$18,855,940	\$18,855,940
2010		\$11,510,000	\$7,348,903	\$18,858,903	\$18,858,903
2011		\$12,270,000	\$6,588,565	\$18,858,565	\$18,858,565
2012		\$13,085,000	\$5,772,785	\$18,857,785	\$18,857,785
2013		\$13,970,000	\$4,887,836	\$18,857,836	\$18,857,836
2014		\$14,920,000	\$3,943,038	\$18,863,038	\$18,863,038
2015		\$15,870,000	\$2,985,105	\$18,855,105	\$18,855,105
2016		\$16,915,000	\$1,944,632	\$18,859,632	\$18,859,632
2017		\$3,210,000	\$1,179,033	\$4,389,033	\$4,389,033
2018		\$3,430,000	\$960,445	\$4,390,445	\$4,390,445
2019		\$3,665,000	\$726,448	\$4,391,448	\$4,391,448
2020		\$3,915,000	\$476,705	\$4,391,705	\$4,391,705
2021		\$4,180,000	\$210,045	\$4,390,045	\$4,390,045

* Numbers may not add due to rounding.

¹ Excludes Principal and Interest Requirements for Defeased Bonds.

OPERATING RESULTS AND RATIOS

Historical

Trusted Properties are those properties the gross revenues of which are pledged to the payment of the Bonds. Eligible Properties are properties which PRIDCO may at any time, at its option, and under certain circumstances must, add to Trusted Properties. See Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING THE PROPOSED SUPPLEMENTAL INDENTURES — Definitions of Certain Terms — Particular Covenants and Provisions — Additions to Trusted Properties at PRIDCO's Option (Sec. 609(a))" and " — Monthly Report of Gross Revenues of Trusted Properties (Sec. 609(c))."

The following table shows historical gross revenues of the Trusted Properties and Eligible Properties available for debt service, Principal and Interest Requirements on the Bonds, and the ratio of such gross revenues to Principal and Interest Requirements for the past five fiscal years ended June 30, 1997.

The historical debt coverage ratios in Table XII below result in part from the inclusion in gross revenues of those revenues derived from Eligible Properties and are shown for illustrative purposes only. The only revenues pledged to the payment of the Bonds are gross revenues of the Trusted Properties. However, Eligible Properties may, and under certain circumstances must, be added to the Trusted Properties. In addition, the Table XII provides information regarding certain proceeds derived from the sale of PRIDCO properties and interest derived from the Reserve Account, both of which are considered for purposes of compliance with the additional bonds test contained in the Trust Indenture. See "SECURITY — Additional Bonds" above.

Table XII - Historical Debt Coverage Ratios
(Fiscal Year ended June 30)
(dollars in thousands)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Rental Revenues Collected - Trusteed Properties	\$35,442	\$36,469	\$36,116	\$39,136	\$39,828
Certain Proceeds from Sale of Properties ¹	7,088	7,102	7,223	7,827	5,799
Interest on Reserve Account	1,939	1,939	1,709	1,970	1,912
Total	<u>44,469</u>	<u>45,510</u>	<u>45,048</u>	<u>48,933</u>	<u>47,539</u>
Rental Revenues Collected - Eligible Properties	2,088	2,279	3,990	3,132	4,016
Total	<u>\$46,557</u>	<u>\$47,789</u>	<u>\$49,038</u>	<u>\$52,065</u>	<u>\$51,555</u>
Maximum Principal and Interest Requirements ²	\$25,838	\$25,838	\$25,838	\$25,838	\$25,838
Debt Coverage Ratio - Trusteed Properties	1.37	1.41	1.40	1.51	1.54
Debt Coverage Ratio - Trusteed Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	1.72	1.76	1.74	1.89	1.84
Debt Coverage Ratio - Trusteed and Eligible Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	1.80	1.85	1.90	2.02	2.00

¹ Included up to a maximum of 20% of the sum of the contingent rentals and fixed based rentals received by PRIDCO from the Trusteed Properties and the amount of any cash income received by PRIDCO from any mortgages or mortgage bonds included in the Trusteed Properties.

² Maximum Principal and Interest Requirements for any given year. See "PRINCIPAL AND INTEREST REQUIREMENTS" herein.

During the period shown in the table above, gross revenues of the Trusteed Properties rose as a result of (i) renewals of expiring leases, (ii) new leases signed for properties which were vacant and the leasing of newly constructed properties, and (iii) a trend toward a greater demand for higher-rent special industrial buildings.

The following selected financial data for the two fiscal years ended June 30, 1997 and 1996 have been derived from financial statements of PRIDCO, which statements have been audited by Arthur Andersen LLP, independent public accountants, and attached hereto in Appendix II. The financial data for the three fiscal years in the period ended June 30, 1995 are derived from audited financial statements not included elsewhere herein. The selected financial data set forth below should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere herein.

The following table also illustrates PRIDCO's overall operations. It should be noted, however, that Principal and Interest Requirements on the Bonds are payable in the first instance from gross revenues of the Trusteed Properties, and, only if those and the amounts to the credit of the Reserve Account should be insufficient, from any other available funds of PRIDCO. It should also be noted that rental income in the following table represents all rentals due or billed during the indicated period, while gross revenues available for Principal and Interest Requirements in the preceding table consist of actual collections of rentals of Trusteed and Eligible Properties.

Table XIII - Historical Consolidated Statement of Operations
(Fiscal Year ended June 30)
(dollars in thousands)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
REVENUES:					
Rental Income from Trusteed and Eligible Properties	\$43,786	\$44,612	\$48,506	\$49,115	\$50,025
Interest Income, Principally from Funds Held by Trustee	2,963	2,437	3,481	4,118	3,662
Net Gain on Sale of Property	8,662	5,214	8,765	8,985	2,510
Other Rental Income	2,044	1,956	--	--	--
Total Revenues	<u>57,455</u>	<u>54,219</u>	<u>60,752</u>	<u>62,218</u>	<u>56,197</u>
EXPENSES:					
Salaries and Wages	12,346	11,905	12,207	13,882	14,306
Administrative and General	9,646	8,225	8,782	9,508	7,954
Depreciation and Amortization	11,175	11,374	12,176	11,064	12,330
Maintenance and Repairs	3,362	2,781	3,357	4,339	3,835
Provisions for Uncollectible Accounts and Environmental Matters	4,815	3,500	4,000	3,500	3,500
Sub Total Expenses	<u>41,344</u>	<u>37,785</u>	<u>40,522</u>	<u>42,293</u>	<u>41,925</u>
Expenses Capitalized	(3,211)	(1,376)	(702)	(2,313)	(4,646)
Total Expenses	<u>38,133</u>	<u>36,409</u>	<u>39,820</u>	<u>39,980</u>	<u>37,279</u>
FINANCE CHARGES:					
Interest Expense	18,313	17,484	16,845	15,560	14,087
Amortization of Debt Issue Costs	434	393	354	313	256
Capitalized Interest	(2,339)	(1,052)	(896)	--	--
Total Finance Charges	<u>16,408</u>	<u>16,825</u>	<u>16,303</u>	<u>15,873</u>	<u>14,343</u>
TOTAL INCOME FROM OPERATIONS	<u>2,914</u>	<u>985</u>	<u>4,629</u>	<u>6,365</u>	<u>4,575</u>
DISCONTINUED OPERATIONS:					
Gains or (loss) Relating to Tourism Subsidiaries and Properties	(15,351)	199	--	--	--
Gains or (loss) on Disposal of Tourism Properties and Subsidiaries	(129,948)	(8,418)	--	--	--
Gain or (Loss) from Discontinued Operations	<u>(145,299)</u>	<u>(8,219)</u>	<u>--</u>	<u>--</u>	<u>--</u>
NET INCOME (LOSS)	<u>(\$142,385)</u>	<u>(\$7,234)</u>	<u>\$4,629</u>	<u>\$6,365</u>	<u>\$4,575</u>

Consolidated rental revenues for the fiscal year ended on June 30, 1997, increased \$4,195,000, or 9% compared to fiscal year 1993. During 1993, PRIDCO changed its lease policy related to new construction and increased its rental rate structure. The implementation of these changes resulted in an increase in rental revenues over the 5 year period shown in Table XIII.

Gain on sales of properties during fiscal year 1997 amounted to \$2,510,000, compared to higher gains in previous years. In 1996, PRIDCO adopted the policy to restrict the sale of land or buildings that are not income producing assets. Proceeds from such sales are generally invested in construction or acquisition of income producing properties.

Consolidated operating expenses during fiscal year 1997 had a net increase of \$581,000, or 1% compared to fiscal year 1993. Salaries and wages increased \$1,960,000, or 16% during the period compared to fiscal year 1993 due to increases in salaries, minimum federal wage rates and total hired employees. Administrative and general expenses decreased \$1,692,000, or 18%, due to efficiencies and budget management. Maintenance and repairs expense increased \$473,000, or 14% during the period in order to maintain PRIDCO properties and industrial parks in adequate condition. The reduction in the provision for environmental matters of \$1,315,000, or 55% in comparison to fiscal year 1993 is due to a reduction in environmental liability.

Pursuant to an Executive Order from the Governor of Puerto Rico in fiscal year 1993, PRIDCO discontinued tourism activities and transferred its tourist properties and activities to a wholly-owned subsidiary, Hotel Development Corporation ("HDC"). Upon the transfer, a loss of \$145,229,000 was recorded to write down the tourism properties to their estimated net realizable value and to reflect the results of operations for fiscal year 1993. During fiscal year 1994, PRIDCO transferred all asset and liabilities of HDC to Puerto Rico Tourism Company and recorded an additional loss from discontinued operations of \$8,219,000. As a result from such transfer, PRIDCO has discontinued all tourism operations.

Industrial Rentals and Collections

The following table presents PRIDCO's industrial space rentals and collections in each of the past five fiscal years ended June 30, 1997. PRIDCO recognizes that it is not in the interest of Puerto Rico or of its investors to provide a permanent rental incentive to lessees which are unable or unwilling to meet their rental obligations, and it closely monitors delinquent accounts.

Table XIV — Industrial Rentals and Collections
(dollars in thousands)

Fiscal Year Ended June 30	Square Feet Rented	Rentals Billed	Rentals Collected	Collection Ratio
1993	21,022,048	\$42,262	\$37,530	88.80%
1994	19,719,896	\$42,900	\$38,748	90.32%
1995	18,900,724	\$45,675	\$40,106	87.81%
1996	20,905,136	\$46,338	\$42,268	91.22%
1997	21,766,891	\$47,789	\$43,844	91.75%

On March 1997, PRIDCO implemented a new collection and eviction program which includes closer monitoring of delinquent accounts and more aggressive collection efforts. Since the implementation of such program, PRIDCO's monthly collections on rentals have increased to approximately 96%.

Projected Receipts and Disbursements

The following table presents PRIDCO's estimates of future operating results on a cash basis and funds for the capital improvements program. Gross cash available for debt service from industrial properties is equivalent to and directly comparable with total gross revenues available from Trusteed and Eligible Properties as shown in Table XII — Historical Debt Coverage Ratios. See "OPERATING RESULTS AND RATIOS — Historical" above. Due to the interrelationships between operating results and capital improvements, the following table should be considered in conjunction with the projected capital improvements program. See "CAPITAL IMPROVEMENTS PROGRAM — Projected" below.

The projections contained in the following tables are based on numerous estimates, assumptions, and plans including, among others, actual demand for industrial space as a direct result of the promotional efforts of EDA; construction by PRIDCO of new facilities and expansion of existing facilities resulting in 1,916,565 square feet of additional rental space during the forecast period; and yearly increases in average annual rental rates as existing leases terminate and are replaced by new leases at higher rental rates. Although PRIDCO believes that the estimates are reasonable and attainable, actual results could differ greatly from the estimates for economic and other reasons. Such tables are calculated in a manner similar to the historical gross revenues test required to be satisfied by PRIDCO for the issuance of Additional Bonds under the Trust Indenture. The projected debt coverage ratios in Table XVI below result in part from the inclusion in gross revenues of those revenues derived from Eligible Properties and are shown for illustrative purposes only. The only revenues pledged to the payment of the Bonds are gross revenues of the Trusteed Properties. However, Eligible Properties may, and under certain circumstances must, be added to the Trusteed Properties. See Appendix I — A. "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE EXCLUDING PROPOSED SUPPLEMENTAL INDENTURES — Particular Covenants and Provisions — Control of Other Properties and Revenues of PRIDCO (Sec. 609(a))."

Table XV — Projected Receipts and Disbursements*
(Fiscal Year ending June 30)
(dollars in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Beginning Cash	\$6,609	\$43,929	\$32,977	\$24,396	\$14,428
Operating Receipts:					
Gross Cash Available for Debt Service from:					
Trusteed and Eligible Properties	46,829	49,286	51,119	52,613	54,088
Proceeds from Sale of Property	5,000	5,000	5,000	5,000	5,000
Total	<u>51,829</u>	<u>54,286</u>	<u>56,119</u>	<u>57,613</u>	<u>59,088</u>
Interest	2,467	3,394	2,912	2,354	1,816
Release of Excess Funds in Reserve Account	18,500	--	--	--	--
Government Contributions	4,000	4,000	4,000	4,000	4,000
Total	<u>24,967</u>	<u>7,394</u>	<u>6,912</u>	<u>6,354</u>	<u>5,816</u>
Net Proceeds of Bonds	50,000	--	--	--	--
Total	<u>126,796</u>	<u>61,680</u>	<u>63,031</u>	<u>63,967</u>	<u>64,904</u>
Operating and Other Disbursements	(22,800)	(23,840)	(25,140)	(27,654)	(30,419)
NET RECEIPTS	<u>103,996</u>	<u>37,840</u>	<u>37,891</u>	<u>36,313</u>	<u>34,485</u>
Repayment of Interim Capital Improvement Notes	(29,000)	--	--	--	--
Principal and Interest Requirements	(16,809)	(18,856)	(18,858)	(18,861)	(18,856)
Total	<u>(45,809)</u>	<u>(18,856)</u>	<u>(18,858)</u>	<u>(18,861)</u>	<u>(18,856)</u>
Available Cash	64,796	62,913	52,010	41,848	30,057
Cash Used for Capital Expenditures	(20,867)	(29,936)	(27,614)	(27,420)	(27,420)
Ending Cash	<u>\$43,929</u>	<u>\$32,977</u>	<u>\$24,396</u>	<u>\$14,428</u>	<u>\$2,637</u>

*This table does not take into consideration the effects of PRIDCO's proposed reorganization or its early retirement program.

Table XVI - Projected Debt Coverage Ratios
(Fiscal Year ending June 30)
(dollars in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Rental Revenues Collected - Trusteed Properties	\$42,497	\$43,839	\$45,672	\$47,166	\$48,641
Certain Proceeds from Sale of Properties ¹	5,000	5,000	5,000	5,000	5,000
Interest on Reserve Account	1,000	1,000	1,000	1,000	1,000
Total	<u>48,497</u>	<u>49,839</u>	<u>51,672</u>	<u>53,166</u>	<u>54,641</u>
Rental Revenues Collected - Eligible Properties	4,332	5,447	5,447	5,447	5,447
Total	<u>\$52,829</u>	<u>\$55,286</u>	<u>\$57,119</u>	<u>\$58,613</u>	<u>\$60,088</u>
Maximum Principal and Interest Requirements	\$18,863	\$18,863	\$18,863	\$18,863	\$18,863
Debt Coverage Ratio - Trusteed Properties	2.25	2.32	2.42	2.50	2.58
Debt Coverage Ratio - Trusteed Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	2.57	2.64	2.74	2.82	2.90
Debt Coverage Ratio - Trusteed and Eligible Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	2.80	2.93	3.03	3.11	3.19

¹Includes up to a maximum of 20% of the sum of the contingent rentals and fixed base rentals received by PRIDCO from the Trusteed Properties and the amount of any cash income received by PRIDCO from any mortgages or mortgage bonds included in the Trusteed Properties.

CAPITAL IMPROVEMENTS PROGRAM

Historical

During fiscal years 1993 through 1997, all of PRIDCO's capital expenditures (excluding PRIDCO's discontinued tourism operations) were for development of industrial facilities, including factory construction, land acquisition, and land development (essentially, construction of sewers and other site improvements). During this period, 773,736 square feet of industrial space were added. Of the capital improvements program, approximately 53% was financed with internally generated funds, 20% with government contributions and 27% with short term borrowings.

The following table summarizes the capital expenditures of PRIDCO and sources of funds for such expenditures during the five fiscal years ended June 30, 1997.

Table XVII — Historical Capital Improvements Program
(Fiscal Year ended June 30)
(dollars in thousands)

	1993*	1994	1995	1996	1997	Total
Capital Improvements						
Industrial Buildings Construction	\$2,992	\$7,992	\$2,386	\$11,604	\$16,700	\$41,674
Industrial Land Development	3,243	1,894	855	867	3,600	10,459
Land Acquisition	96	442	162	674	-	1,374
Property Improvements and Other	5,916	5,915	5,457	7,947	7,319	32,554
Total	<u>\$12,247</u>	<u>\$16,243</u>	<u>\$8,860</u>	<u>\$21,092</u>	<u>\$27,619</u>	<u>\$86,061</u>
Sources						
Internally Generated Funds	\$9,626	\$432	\$ - -	\$11,430	\$24,452	\$45,940
Government Contributions	2,621	3,305	-	8,244	3,167	17,337
Proceeds from Line of Credit	-	12,506	8,860	1,418	-	22,784
Total	<u>\$12,247</u>	<u>\$16,243</u>	<u>\$8,860</u>	<u>\$21,092</u>	<u>\$27,619</u>	<u>\$86,061</u>

* Excludes transfer of tourism and hotel properties.

Projected

The following table presents PRIDCO's projected capital improvements program for fiscal years 1998 through 2002. The table should be considered in conjunction with projected operating results. See "OPERATING RESULTS AND RATIOS — Projected." Although PRIDCO believes that its capital improvements program is reasonable under present circumstances, actual capital expenditures could be affected as a result of unexpected changes in general economic conditions, the climate for industrial development in Puerto Rico, construction costs and land prices, the availability of adequate sewage and water facilities for industrial expansion, and other factors. PRIDCO revises its capital budget every year, expanding or contracting planned capital improvements in response to changing circumstances.

Table XVIII — Projected Capital Improvements Program
(Fiscal Year ending June 30)
(dollars in thousands)

	1998	1999	2000	2001	2002	Total
Capital Improvements						
Industrial Buildings Construction	\$10,474	\$11,580	\$9,150	\$9,420	\$9,420	\$50,044
Industrial Land Development	1,310	3,031	4,615	5,000	5,000	18,956
Land Acquisition	4,583	9,325	7,849	7,000	7,000	35,757
Property Improvements and Other	4,500	6,000	6,000	6,000	6,000	28,500
Total	<u>\$20,867</u>	<u>\$29,936</u>	<u>\$27,614</u>	<u>\$27,420</u>	<u>\$27,420</u>	<u>\$133,257</u>
Sources						
Release of Excess Bond Reserve	\$ - -	\$17,803	\$1,697	\$ - -	\$ - -	\$19,500
Internally Generated Funds	-	-	21,917	23,420	23,420	68,757
Government Contributions	4,000	4,000	4,000	4,000	4,000	20,000
Proceeds from Bond Issuance	16,867	8,133	-	-	-	25,000
Total	<u>\$20,867</u>	<u>\$29,936</u>	<u>\$27,614</u>	<u>\$27,420</u>	<u>\$27,420</u>	<u>\$133,257</u>

ENVIRONMENTAL CONSIDERATIONS AND LITIGATION

The following information relates to and has been obtained from and prepared by PRIDCO and its legal counsel, and the Underwriters do not assume any responsibility for the accuracy or completeness thereof. The delivery of this Official Statement shall not create any implication that there has been no change in the matters discussed herein since the date hereof, or that the information contained or referred to herein is correct or complete as of any time subsequent to its date.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") was enacted by Congress to address problems resulting from releases of hazardous substances to the environment. CERCLA establishes procedures and standards for responding to releases of hazardous substances, pollutants and contaminants. Under CERCLA and its regulations, liability for clean-up costs, damage to natural resources, and any health assessment or health effects, may be imposed on the present and past owner or operator of a facility from which there is a release or potential release of hazardous substances in addition to any person who arranged for disposal or treatment of hazardous substances at a site or transported hazardous substances to a site, from which there is a release or potential release.

In response to CERCLA, PRIDCO established an administrative policy that, among other things, requires that an environmental evaluation be conducted on its properties before they are leased and upon termination of an existing lease. PRIDCO has also included a clause in its standard lease agreement requiring tenants to indemnify and hold PRIDCO harmless from and against any and all liabilities incurred as a result of environmental conditions occurring during the lease term. In addition, PRIDCO has implemented a preventive program for systematically identifying PRIDCO properties which may pose undesirable environmental risks arising from tenant operations involving hazardous substances. Program activities include following up on such tenants' business operations via frequent visiting schedules, to review and evaluate their environmental practices.

National Priorities List — Superfund Sites

As required by CERCLA, the United States Environmental Protection Agency ("EPA") has developed a National Priorities List ("NPL") in order to ensure that scarce resources are first used to clean up those facilities presenting the greatest danger to public health or welfare or the environment. PRIDCO currently holds title to two properties in Vega Alta and Guayama which are part of broader sites which have been included by EPA in the NPL. PRIDCO is also a previous owner of a property in Juana Díaz which has also been included in the NPL.

Financial responsibility for clean-up costs has been assumed by the industrial potentially responsible parties ("PRPs") at the two CERCLA sites (Vega Alta and Guayama) where the federal government named PRIDCO as a PRP solely for being a part owner of both sites. PRIDCO's participation in the site remediation efforts is limited to providing in-kind support to the industrial PRPs' implementation of the clean-up programs, and consequently does not involve any cash disbursements to the federal government or the industrial PRPs.

Vega Alta Site. EPA completed a remedial investigation and feasibility study which documented the release of hazardous substances consisting of volatile organic compounds into the groundwater and soil at the Vega Alta Wellfield Site ("Vega Alta Site") located in an industrial park owned by PRIDCO in Vega Alta, Puerto Rico. EPA notified PRIDCO that it was a potentially responsible party for the site, along with PRPs that are or have been tenants of PRIDCO at the Vega Alta Industrial Park: Caribe General Electric Products, Inc., Harman Automotive Puerto Rico, Inc., Motorola Telcarro de Puerto Rico, Inc., Teledyne Packaging, PR, Inc., and The West Company of Puerto Rico, Inc.

In early 1996, the U.S. Department of Justice moved for entry of the Consent Decree, pursuant to which the United States would be reimbursed \$2.65 million for oversight costs in the case. The Court entered the Consent Decree on April 24, 1996, but because parties were not notified of this fact, the Department of Justice views August 19, 1996, as the date of entry of the Consent Decree.

PRIDCO is a signatory of the Consent Decree and, as such, a beneficiary of the settlement (including contribution protection), although by agreement with the U.S. government and the co-defendants, PRIDCO will not be contributing financially to the settlement. PRIDCO has mutually released one party, The West Company, but has yet to resolve the potential cross-claims among the other industrial parties. Despite this fact, the other parties stipulated to the discontinuation of the federal court action pursuant to a mutual tolling agreement.

Guayama Site. EPA has listed the Fibers Public Supply Wells Superfund Site (the "Fibers Site") in the NPL. PRIDCO holds title to certain portions of land which comprises the Fibers Site.

In 1992, EPA and the private companies that owned and/or operated at the Fibers Site entered into a Consent Decree. PRIDCO was not a party to the Consent Decree. However, the private parties and PRIDCO entered into a separate agreement on July 6, 1993 with EPA's consent. Under that agreement, the PRPs assumed payment of past response costs at the Fibers Site which EPA had sought to recover from PRIDCO. PRIDCO covenanted to provide in-kind services with a value of \$465,000 (with no cash disbursement) without admitting any responsibility or liability in connection with the site. EPA, the private companies and PRIDCO are currently evaluating technical and legal issues related to potential discharge options for the treated water from the site, as part of the remedial activities to be implemented.

Caribe General Electric ("G.E.") - Juana Díaz Site. Another site included in the NPL is a property located in Juana Díaz that was previously leased to G.E. and which G.E. purchased in December 1987. An Administrative Order on Consent has been signed between the EPA and G.E., pursuant to which G.E. agreed, among other things, to clean up the site. PRIDCO has no financial responsibility for remediation activities at this site.

PRIDCO currently owns property immediately adjacent to G.E.'s facility but which is not part of the site. As part of the overall remediation activities, G.E. conducted certain clean-up work at PRIDCO's property.

Consistent with its policy, EPA has stated that it has not waived its right to initiate any future action under its CERCLA authority against PRIDCO as prior owner of G.E.'s property. However, EPA has fixed responsibility for site remediation work and G.E. as it is evidenced by the fact that clean-up activities are being undertaken by G.E. at its own cost.

Environmental Remediation

PRIDCO may also be required to conduct some minor remediation activities at certain of its industrial properties related to actions occurring during tenants' normal course of business. PRIDCO's management believes such remediation activities will not have a material effect on PRIDCO's results of operations and financial condition.

Litigation

PRIDCO is also a party to certain other lawsuits and claims resulting from the normal course of business. PRIDCO's management believes that the final outcome of such litigation will not have a material effect on PRIDCO's results of operations and financial condition.

TAXATION

In the opinion of Pietrantonio Méndez & Alvarez, Bond Counsel, based on the laws of the Commonwealth now in force;

1. Interest on the 1997 Series A Bonds is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by Section 1017 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "P.R. Code").
2. The 1997 Series A Bonds are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and the interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended.
3. The transfer of the 1997 Series A Bonds by death or gift will not be subject to estate or gift tax under the P.R. Code if at the time of death or gift the decedent or donor was (i) a resident of Puerto Rico and (ii) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico.
4. Gain realized from the sale or exchange of a Series 1997 Bond may be subject to income tax under the P.R. Code.

The P.R. Code does not provide rules with respect to the treatment of the excess of the amount due at maturity of a 1997 Series A Bond with an initial offering price to the public lower than the amount due at maturity (herein called a "Discount Bond") over its initial offering price ("original issue discount"). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, original issue discount is treated as interest.

Prospective owners of the 1997 Series A Bonds, including but not limited to financial institutions, should be aware that ownership of the 1997 Series A Bonds may result in having a portion of their interest and other expenses allocable to interest on the

1997 Series A Bonds disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes.

In the opinion of Bond Counsel, based on the provisions of the United States Internal Revenue Code of 1986, as amended, (the "Code") now in force:

1. In the case of an individual who is a *bona fide* resident of Puerto Rico during an entire taxable year, interest on the 1997 Series A Bonds received by, or "original issue discount" (within the meaning of the Code) on the Discount Bonds otherwise required to be recognized as gross income and accrued to, such individual during such taxable year, will constitute gross income from sources within Puerto Rico and, therefore, is excludable from gross income for purposes of the Code pursuant to section 933(1) thereof.

2. Interest on the 1997 Series A Bonds derived by, or "original issue discount" (within the meaning of the Code) on the Discount Bonds otherwise required to be recognized as gross income and accrued to, a corporation organized under the laws of Puerto Rico or any other foreign country ("foreign corporations") is not, in the hands of such corporation, subject to income taxation under the Code provided such interest or original issue discount is not effectively connected, or treated as effectively connected, with the conduct of a trade or business in the United States by such corporation.

3. Interest on the 1997 Series A Bonds is not excludable from the gross income of the recipients thereof for federal income tax purposes under Section 103(a) of the Code.

4. A person that is subject to income tax under the Code may be subject to federal income tax on any gain realized upon the sale or exchange of the 1997 Series A Bonds. However, pursuant to Notice 89-40 issued by the United States Internal Revenue Service on March 27, 1989, gain on the sale or exchange of the 1997 Series A Bonds by an individual who is a *bona fide* resident of Puerto Rico during the entire taxable year will constitute Puerto Rico source income and, therefore, qualify for the exclusion provided in Section 933(1) of the Code, provided such 1997 Series A Bonds do not constitute inventory in the hands of such individual.

5. The transfer of the 1997 Series A Bonds by death or gift will not be subject to estate or gift tax under the Code if at the time of death or gift the decedent or donor was (i) a resident of Puerto Rico and (ii) a United States citizen that acquired such citizenship solely by reason of birth or residence in Puerto Rico.

Prospective owners of the 1997 Series A Bonds should also be aware that the Code provides special rules for the taxation of shareholders of foreign corporations that qualify as "controlled foreign corporations," "personal holding companies," "foreign personal holding companies" or "passive foreign investment companies", as such terms are defined by the Code.

The opinion of Bond Counsel regarding the tax consequences under the Code and Commonwealth law arising from ownership or disposition of the 1997 Series A Bonds is limited to the above.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of the mathematical computations of the adequacy of the outstanding maturing amounts of and interest on the Government Obligations to pay all principal of and interest on the Defeased Bonds (see "FINANCING PLAN") will be verified by Deloitte & Touche LLP, a firm of independent accountants.

UNDERWRITING

The underwriters listed on the cover page (the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the 1997 Series A Bonds from PRIDCO at an aggregate discount amount of \$2,129,502.67 from the initial offering prices set forth or derived from information set forth on the cover or the inside cover page hereof. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all the 1997 Series A Bonds if any such Bonds are purchased. The 1997 Series A Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters. PRIDCO has agreed to indemnify, to the extent permitted by law, the Underwriters against certain liabilities, including liabilities under the Federal securities laws. As financial advisor and fiscal agent, GDB participated in the selection of the Underwriters of the 1997 Series A Bonds.

LEGAL INVESTMENT

The 1997 Series A Bonds will be eligible for deposit by banks in the Commonwealth to secure public funds and will be approved investments for insurance companies to qualify them to do business in the Commonwealth as required by law.

LEGAL MATTERS

The proposed forms of opinions of Pietrantonio Méndez & Alvarez, San Juan, Puerto Rico, Bond Counsel, are set forth in Appendix IV to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Axtmayer Adsuar Muñiz & Goyco, P.S.C., San Juan, Puerto Rico.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As required by Act No. 272 of the Legislature of the Commonwealth, approved May 15, 1945, as amended, GDB has acted as financial advisor and fiscal agent to PRIDCO in connection with the Series 1997 Bonds offered hereby. As financial advisor and fiscal agent, GDB participated in the selection of the Underwriters of the Series 1997 Bonds. Certain of the Underwriters have been selected by GDB to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations.

RATINGS

The Series 1997 Bonds have been assigned a rating of Baa1 by Moody's Investors Service, Inc. ("Moody's") and of BBB+ by Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies, Inc.

There is no assurance that the ratings given to the Series 1997 Bonds will remain in effect for any given period or that they will not be revised downward or withdrawn entirely by Moody's or S&P if, in their sole judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the 1997 Series A Bonds.

The ratings given to the Series 1997 Bonds reflects only the views of Moody's and S&P. An explanation of the significance of each rating may be obtained only from the respective rating agency. The rating does not constitute a recommendation to buy, sell or hold the 1997 Series A Bonds.

Moody's and S&P were provided with materials relating to PRIDCO, the Series 1997 Bonds and other relevant information, and no application has been made to any other rating agency for purposes of obtaining a rating on the 1997 Series A Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the SEC, PRIDCO, as specifically stated hereinbelow, has agreed to the following for the benefit of the Beneficial Owners (generally the tax owners of the Series 1997 Bonds):

1. PRIDCO has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year 1997, with each nationally recognized municipal securities information repository ("NRMSIR") and with any Commonwealth state information depository ("SID"), PRIDCO's audited financial statements for the prior fiscal year prepared in accordance with generally accepted accounting principles in effect from time to time and certain material historical quantitative data (including financial information and operating data) on PRIDCO and its revenues, expenditures, financial operations and indebtedness generally found in this Official Statement;

2. PRIDCO will agree to file, in a timely manner, with each NRMSIR or with the Municipal Securities Rulemaking Board ("MSRB"), and with any Commonwealth SID, notice of failure of PRIDCO to comply with paragraph 1 above and notice of any of the following events with respect to the Series 1997 Bonds, if material:

- a. principal and interest payment delinquencies;
- b. non-payment related defaults;
- c. unscheduled draws on debt service reserves reflecting financial difficulties;
- d. unscheduled draws on credit enhancements reflecting financial difficulties;
- e. substitution of credit or liquidity providers, or their failure to perform;
- f. adverse opinions or events affecting the tax-exempt status of the Series 1997 Bonds;
- g. modifications to rights of the holders (including Beneficial Owners) of the Series 1997 Bonds;
- h. bond calls;
- i. defeasances;
- j. release, substitution, or sale of property securing repayment of the Series 1997 Bonds; and
- k. rating changes.

PRIDCO may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of PRIDCO, such other event is material with respect to the Series 1997 Bonds, but PRIDCO does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

With respect to the following events:

Events (d) and (e). PRIDCO does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Series 1997 Bonds, unless PRIDCO applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the 1997 Series A Bonds, see "TAXATION."

Event (h). PRIDCO does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement, the only open issue is which the Series 1997 Bonds will be redeemed in the case of a partial redemption, notice of redemption is given to the Bondholders as required under the terms of the Series 1997 Bonds, and public notice of the redemption is given pursuant to Securities and Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or Series 1997 Bond purchases.

As of the date of this Official Statement, there is no Commonwealth SID, and the NRMSIRs are: Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey 08542-0840; Kenny Information Systems, Inc., Attn: Kenny Repository Service, 65 Broadway, New York, New York 10006; Thomson NRMSIR, 395 Hudson Street, 3rd Street, New York, New York 10014, Attn: Municipal Disclosure; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; and Donnelly Financial, Municipal Securities Disclosure Archive, 559 Main Street, Hudson, Massachusetts 01749.

PRIDCO acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Series 1997 Bonds, including Beneficial Owners, and shall be enforceable by any such holders or Beneficial Owners; provided that the right to enforce the provisions of this undertaking shall be limited to a right to obtain specific performance of PRIDCO's obligations hereunder, and any failure to comply with the provisions of this undertaking shall not be an event of default with respect to the Series 1997 Bonds under the Trust Indenture.

No bondholder or Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such bondholder or Beneficial Owner shall have filed with PRIDCO written notice of any request to cure such breach, and the recipient of such notice shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan for the equal benefit of all bondholders or Beneficial Owners of the Series 1997 Bonds benefitted by the Covenants, and no remedy shall be sought or granted other than specific performance of any of the Covenants at issue. Notwithstanding the foregoing, no challenge to the adequacy of the information provided in accordance with the filings mentioned above may be prosecuted by any bondholder or Beneficial Owner except in compliance with the remedial and enforcement provisions contained in the Trust Indenture.

APPENDIX I

- A. Summary of Certain Provisions of the Trust Indenture Excluding Proposed Supplemental Indentures**
- B. Summary of Certain Provisions of Proposed Supplemental Indentures**

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**A. SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE
EXCLUDING PROPOSED SUPPLEMENTAL INDENTURES**

The following statements are brief summaries of certain provisions of the Trust Indenture. Such statements do not purport to be complete and reference is made to the Trust Indenture, copies of which are available for examination at the office of PRIDCO or the Trustee.

Definitions of Certain Terms

The following are definitions of certain of the terms used in the Trust Indenture and used in this Official Statement:

“Accreted Value” means with respect to any Capital Appreciation Bonds (i) as of any Valuation Date, the amount set forth for such date in the resolution authorizing such Capital Appreciation Bonds; and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date (or, if there is no preceding Valuation Date, the amount of the original issue) and (b) the product of (1) a fraction, the numerator of which is the actual number of days having elapsed from the preceding Valuation Date (or from the original issue date, if there is no preceding Valuation Date) and the denominator of which is the actual number of days from such preceding Valuation Date (or from the original issue date) to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates (or between the amount of the original issue and the Accreted Value on the first Valuation Date).

“Amortization Requirement” for each six months’ period of July 1 to December 31 and January 1 to June 30 of any fiscal year shall mean the principal amount fixed or computed for such six months’ period as set forth for the retirement of term Bonds by purchase or redemption.

The Amortization Requirements for the term Bonds of each Series shall be initially the respective principal amounts (each of which shall be in a multiple of \$5,000) for each such six months’ period as fixed in the resolution of PRIDCO authorizing the issuance of the Bonds of such Series. The aggregate amount of such Amortization Requirements for the term Bonds of each Series shall be equal to the principal amount of the term Bonds of such Series and such Amortization Requirements shall begin in the six months’ period of the fiscal year determined by PRIDCO and shall end not later than the six months’ period immediately preceding the maturity of such Bonds.

If in any fiscal year the total principal amount of the term Bonds of any Series retired by purchase or redemption shall be in excess of the total amount of the Amortization Requirements for the term Bonds of such Series to and including such fiscal year, then the remaining Amortization Requirements for the term Bonds of such Series shall be eliminated or reduced accordingly in the inverse order of the remaining six months’ periods. If the total principal amount of the term Bonds of any Series retired by purchase or redemption prior to the close of such fiscal year shall be less than the total amount of the Amortization Requirements for the term Bonds of such Series to and including such fiscal year, the amount of such deficiency shall be added to the amount of the Amortization Requirement for the term Bonds of such Series for the six months’ period next succeeding for the purpose of determining the amounts to be deposited to the credit of the Redemption Account as described below under “Collection and Disposition of Revenues - Sinking Fund.”

The Trustee shall, on the 1st day of June in each fiscal year, compute the Amortization Requirements for each six months’ period of the next succeeding and all subsequent fiscal years for the term bonds of each Series then outstanding and to file a copy of such computation with the Secretary of PRIDCO. The Amortization Requirement for each six months’ period of the then current fiscal year shall continue to be applicable during the balance of such current fiscal year and no adjustment shall be made therein by reason of term Bonds purchased or redeemed or called for redemption during such current fiscal year.

“Capital Appreciation Bonds” means any Bonds as to which interest is payable only at the maturity or prior redemption of such Bonds. For the purposes of (i) determining the redemption price of a Capital Appreciation Bond or (ii) determining the amount due on a Capital Appreciation Bond upon a declaration pursuant to Section 703 of the Trust Indenture or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to PRIDCO or the Trustee any notice, consent, request, or demand pursuant to the Trust Indenture for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value. In the case of Capital Appreciation Bonds that are convertible to Bonds with interest payable prior to maturity, the term “Capital Appreciation Bonds” shall apply only to the period prior to such conversion.

“Designated Maturity Bonds” means the indebtedness incurred by PRIDCO under the terms of a separate trust indenture or resolution, which indebtedness has a maturity of at least ten (10) years and is secured, as to the unamortized principal thereof, on a subordinate basis to the Bonds and for which (i) no amortization of principal has been established or (ii) the aggregate amount of the amortized principal that has been established is less than the principal amount of the indebtedness; provided that interest on said indebtedness and any amortized principal of said indebtedness may be payable on a parity, respectively, with interest on the Bonds and Amortization Requirements on term Bonds, in which case said interest and amortized principal shall be included as Principal and Interest Requirements on the Bonds and shall otherwise be deemed to be, and be payable as interest and Amortization Requirements on, the Bonds.

“Extendible Maturity Bonds” means Bonds the maturities of which, by their terms, may be extended by and at the option of the bondholder or PRIDCO.

“Fixed Base Rentals” means those rentals which are payable in a specified amount regardless of earnings or other contingencies and the term “contingent rentals” shall mean all other rentals.

“Government Obligations” means (i) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government, including securities evidencing ownership interests in such obligations or in specified portions thereof (which may consist of specified portions of the principal of or interest in such obligations), which obligations are held by a bank (including the Trustee) or trust company as custodian, under which the owner of said interests is the real party in interest and has the right to proceed directly or individually against the issuer of such obligations and which obligations are not available to satisfy any claim of the custodian or any persons claiming through the custodians or to whom the custodian may be obligated and (ii) bonds, debentures, notes or participation certificates issued or guaranteed by any instrumentality or agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, including but not limited to: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Government National Mortgage Association, Federal Land Banks, or the Federal National Mortgage Association.

“gross revenues of the Trusteed Properties” means all of the cash income received by PRIDCO, without deduction for any expenses or charges, on account of its ownership or operation of the Trusteed Properties, including any payments received by PRIDCO on account of use and occupancy insurance covering loss of revenues of any of such Properties and any interest or other income received by PRIDCO from any mortgages or mortgage bonds included as a part of the Trusteed Properties.

“Investment Obligations” means (i) Government Obligations, (ii) obligations issued by the Commonwealth of Puerto Rico or any state or territory of the United States or political subdivision thereof rated in one of the three highest rating categories (without regard to any gradation within such categories) by both Standard & Poor's Corporation and Moody's Investors Service, Inc. or their respective successors, or if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, by a nationally recognized securities rating service, (iii) repurchase agreements with commercial banks fully secured by Government Obligations and (iv) any other investment obligations permitted for governmental instrumentalities such as PRIDCO under the laws of the Commonwealth of Puerto Rico which are rated in any of the three highest

rating categories (without regard to any gradation within such categories) by both Standard & Poor's Corporation and Moody's Investors Service, Inc. or their respective successors, or if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, by a nationally recognized securities rating service, or which are collateralized by any of the other Investment Obligations described herein.

"Prerefunded Municipals" means any bonds or other obligations of the Commonwealth of Puerto Rico or any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state or Puerto Rico (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or Government Obligations or Time Deposits secured in the manner set forth in Section 501 of the Trust Indenture, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, and (c) as to which the principal of and interest on the Government Obligations or such Time Deposits which have been deposited in such fund along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) above.

"Principal and Interest Requirements" means for any fiscal year, as applied to the bonds of any Series, the sum of:

- (a) the amount required to pay the interest on all serial Bonds of such Series then outstanding which is payable on any date after July 1 during such fiscal year and on July 1 in the following fiscal year,
- (b) the amount required to pay the principal of all serial Bonds of such Series then outstanding which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year,
- (c) the amount required to pay the interest on all term Bonds of such Series then outstanding which is payable on any date after July 1 during such fiscal year and on July 1 in the following fiscal year, and
- (d) the Amortization Requirements for the term Bonds of such Series for such fiscal year.

The Principal and Interest Requirements shall be determined, as required from time to time, by the Trustee. In computing the Principal and Interest Requirements for any fiscal year for the Bonds of any Series, the Trustee shall assume that an amount of the term Bonds of such Series equal to the Amortization Requirements for the term Bonds of such Series for six months' period of such fiscal year will be retired by purchase or redemption on the next succeeding January 1 or July 1.

For the purpose of determining the maximum Principal and Interest Requirements under the provisions of Sections 402(c), 608 and 609(c) of the Trust Indenture, the interest rate on Variable Rate Bonds shall be assumed to be one hundred ten percent (110%) of the greater of (i) the average interest rate on such Variable Rate Bonds during the twelve (12) months ending with the month preceding the date of calculation, or such shorter period that such Variable Rate Bonds shall have been outstanding under the Trust Indenture, and (ii) the rate of interest on such Variable Rate Bonds on the date of calculation. For the purpose of determining the maximum Principal and Interest Requirements under the provisions of Sections 209 and 210 of the Trust Indenture, the interest rate on Variable Rate Bonds outstanding or proposed to be issued on the date of calculation shall be determined in accordance with the formula in the previous sentence. If Variable Rate Bonds are payable at the option of the bondholder and the source for said payment is a credit or liquidity facility, the stated dates for Amortization Requirements and principal payments thereof shall be used for purposes of the above calculations.

For the purpose of determining the maximum Principal and Interest Requirements (i) in the case of Put Bonds where the source for payment of said put is a credit or liquidity facility, the stated periods for Amortization Requirements and the stated dates for principal payments shall be used, (ii) in the case of Extendible Maturity Bonds, the Bonds shall be deemed to mature on the later of the stated maturity date and the date to which such stated maturity date has been extended and (iii) in the case of Capital Appreciation Bonds, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds becoming due at maturity or by virtue of an Amortization Requirement shall be included in such manner and during such period of time as is specified in the resolution authorizing such Capital Appreciation Bonds.

Principal and Interest Requirements shall include the amount required to pay interest on outstanding Designated Maturity Bonds and any amortized principal of said Designated Maturity Bonds for any fiscal year, if said interest and amortized principal are payable, under the trust indenture or resolution providing for said Designated Maturity Bonds, on a parity with interest and Amortization Requirements on the Bonds.

To the extent all or a portion of the principal of, Amortization Requirements for or interest on any Bonds of any Series is payable from moneys, Investment Obligations, or Time Deposits secured in the manner set forth in Section 501 of the Trust Indenture, irrevocably set aside or deposited irrevocably for such purpose with a bank or trust company (which may include the Trustee), the principal of and the interest on which when due will provide sufficient moneys to make such payments, such principal, Amortization Requirements and interest shall not be included in determining Principal and Interest Requirements; provided, however, that for purposes of the definition of Principal and Interest Requirements as used in Sections 402(c), 608 and 609(c), said definition shall include any interest payable from any amount deposited to the credit of the Bond Service Account pursuant to Section 211 of the Trust Indenture. The President and General Manager of PRIDCO shall deliver to the Trustee a certificate describing the principal of, Amortization Requirements for and interest on any Bonds for the payment of which moneys, Investment Obligations or Time Deposits have been so set aside or deposited and stating that such principal, Amortization Requirements and interest should not be included in determining the Principal and Interest Requirements. Upon request of the Trustee, PRIDCO shall cause to be delivered to the Trustee a certificate of an independent verification agent as to the sufficiency of the maturing principal amounts of any such moneys, Investment Obligations or Time Deposits, together with interest thereon, so set aside or deposited to pay such principal, Amortization Requirements and interest.

“Put Bonds” means Bonds, other than Variable Rate Bonds, which by their terms may be tendered by and at the option of the holder thereof or may be required to be tendered for payment prior to the stated maturity thereof.

“Reserve Account Insurance Policy” means the insurance policy, surety bond or other acceptable evidence of insurance, if any, deposited in the Reserve Account for moneys or securities on deposit therein. The issuer providing such insurance shall be a municipal bond insurer whose policy or bond results in the rating of municipal obligations secured by such policy or bond to be rated, at the time of deposit into the Reserve Account, in one of the three highest rating categories (without regard to any gradation within such categories) by (i) both Standard & Poor's Corporation or its successor, and Moody's Investors Service, Inc. or its successor, or (ii) if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, a nationally recognized securities rating service.

“Reserve Account Letter of Credit” means the irrevocable, transferable letter of credit, if any, to be deposited in the Reserve Account for moneys or securities on deposit therein. The issuer providing such letter of credit shall be a banking association, bank or trust company or branch thereof whose letter of credit results in the rating of municipal obligations secured by such letter of credit to be rated, at the time of deposit into the Reserve Account, in one of the three highest rating categories (without regard to any gradation within such categories) by (i) both Standard & Poor's Corporation or its successor, or Moody's Investors Service, Inc., or its successor, or (ii) if both such corporations shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, a nationally recognized securities rating service.

"Time Deposits" means time deposits, certificates of deposit or similar arrangements with the Trustee, Government Development Bank for Puerto Rico or any bank or trust company which is a member of the Federal Deposit Insurance Corporation having a combined capital and surplus aggregating not less than \$100,000,000.

"Trusteed Properties" means such of the following properties as shall not have been disposed of as permitted by the Trust Indenture; (i) those properties of PRIDCO which were Trusteed Properties upon release of the Trust Indenture dated as of July 1, 1958, by and between PRIDCO and Citibank, N.A., as successor to the First National City Bank of New York, including all machinery and other equipment owned by PRIDCO and located on or used in or in connection with such properties; (ii) any other properties of PRIDCO, including any such machinery and other equipment owned by PRIDCO and any first mortgages on real property held by PRIDCO as mortgagee, or first mortgage bonds, which become "Trusteed Properties" by the terms of the Trust Indenture; and (iii) all improvements of and additions to the properties referred to in clauses (i) and (ii) of this paragraph which are acquired or constructed by or on behalf of PRIDCO.

"Valuation Date" means with respect to any Capital Appreciation Bonds the date or dates set forth in the resolution authorizing such Bonds on which Accreted Values are assigned to the Capital Appreciation Bonds.

"Variable Rate Bonds" means Bonds issued with a variable, adjustable, convertible or similar interest rate which is not fixed in percentage at the date of issue for the term thereof but which may or may not be convertible to a fixed interest rate for the remainder of their term.

Collection and Disposition of Revenues

Covenant as to Rental of Trusteed Properties (Sec. 401). PRIDCO covenants that it will use its best efforts to keep the buildings and the machinery and equipment included in the Trusteed Properties rented at all times and that the rentals fixed will be at amounts which PRIDCO determines to be the maximum obtainable in the circumstances. Leases of the Trusteed Properties may be renegotiated, canceled or replaced by PRIDCO when it determines such action to be in the best interests of PRIDCO and the bondholders.

PRIDCO further covenants that it will take all reasonable action necessary to collect all rents and other income from the Trusteed Properties.

Sinking Fund (Sec. 402). A special fund is created by the Trust Indenture and designated "Puerto Rico Industrial Development Company Interest and Sinking Fund" (the "Sinking Fund"). Three separate accounts are created in the Sinking Fund designated "Bond Service Account," "Redemption Account" and "Reserve Account," respectively. The moneys in each of said Accounts shall be held in trust and, pending application, shall be subject to a lien and charge in favor of the holders of the Bonds.

PRIDCO covenants that all of the gross revenues of the Trusteed Properties collected by PRIDCO will be deposited as received with the Trustee without deduction for any expenses or charges. The Trustee is required, from such gross revenues received by it during any six (6) months' period of July 1 to December 31 or January 1 to June 30 of each fiscal year, to promptly make deposits to the credit of the following accounts in the amounts specified and in the following order:

a) to the credit of the Bond Service Account, such amount as may be required to be deposited to the credit of said Account on the January 1 or the July 1, as the case may be, following such six (6) months' period, to make the amount then to the credit of the Bond Service Account equal to the total of (i) the interest which will become payable during such six months' period or within 30 days thereafter on all Bonds of each Series then outstanding; (ii) the principal of all serial Bonds of each Series which mature in semi-annual installments, if any, which will become payable within the next ensuing six (6) months; and (iii) an amount in the case of a six (6) months' period of July 1 to December 31, equal to fifty percent (50%) and, in the case of a six (6) months' period of January 1 to June 30 equal to one hundred percent (100%) of the principal of all serial Bonds of each Series which mature in annual installments, if any, which will become payable within the next ensuing twelve (12) months; provided that in the case of Variable Rate Bonds, to the extent the actual interest rate is not known the actual amount deposited will be based on estimates;

b) to the credit of the Redemption Account, such amount as may be required to make the amount deposited during the then current six (6) months' period of July 1 to December 31 or January 1 to June 30 in each fiscal year to the credit of the Redemption Account equal to the Amortization Requirement of such six (6) months' period for the term Bonds of each Series then outstanding, plus the premium, if any, which would be payable in the next ensuing six (6) months' period on a like principal amount of Bonds if such principal amounts of Bonds should be redeemed prior to their maturity from moneys in the Sinking Fund; provided, however, that if the amounts so deposited to the credit of said Account or to the credit of the Bond Service Account in any such six (6) months' period shall be less than the required amounts, the requirements therefor shall nevertheless be cumulative and the amounts of any deficiencies in any such six (6) months' period shall be added to the amounts otherwise required to be deposited in each such six (6) months' period in each fiscal year thereafter until such time as such deficiencies shall have been made up; and provided, further, that the requirements of this clause (b) shall be in addition to any other requirements of the Trust Indenture for deposits to the credit of the Redemption Account; and

c) to the credit of the Reserve Account, such amount as may be required to make the amount then to the credit of the Reserve Account, including the amount of any Reserve Account Insurance Policy or any Reserve Account Letter of Credit therein, equal to the maximum amount of the Principal and Interest Requirement for the then current or any fiscal year thereafter on account of all Bonds then outstanding.

Any balance of such gross revenues remaining after making the full deposits under clauses (a), (b) and (c) above may be used by PRIDCO for any proper corporate purpose.

Bond Service Account (Sec. 403). The Trustee is required, from time to time, to withdraw from the Bond Service Account and (1) remit by mail to each registered owner of coupon Bonds registered as to both principal and interest and registered Bonds without coupons the amounts required for paying interest upon such Bonds as such interest becomes due; (2) deposit in trust with the Paying Agents sufficient moneys for paying interest on the remaining Bonds as such interest becomes due; (3) set aside in trust an amount equal to the amount of, and for the sole and exclusive purpose of paying, the principal of all coupon Bonds registered as to principal alone or as to both principal and interest and all registered Bonds without coupons as such principal becomes due; and (4) deposit in trust with the Paying Agents sufficient moneys for paying the principal of coupon Bonds not registered as to principal alone or as to both principal and interest as such principal becomes due.

Notwithstanding the foregoing, if principal and interest payments, or a portion thereof (other than a payment of the purchase price of Bonds pursuant to a "put"), for particular Bonds have been made on behalf of PRIDCO by a credit or liquidity facility issuer or other entity insuring, guaranteeing or providing for said payments, amounts deposited in the Bond Service Account and allocable to said payments for said Bonds shall be paid, to the extent required under any agreement, to the credit or liquidity facility issuer or entity having theretofore made said corresponding payment.

Redemption Account (Sec. 404). a) Moneys held for the credit of the Redemption Account shall be applied to the purchase or redemption of Bonds in the following order:

first, any term Bonds issued under the provisions of Section 208 of the Trust Indenture (including any Bonds issued under the provisions of the first paragraph of Section 210 and deemed to be part of the term Bonds of such Series), to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term Bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term Bonds;

second, term Bonds of each Series, if any, issued under the provisions of Section 209 of the Trust Indenture (including any Bonds issued under the provisions of the first paragraph of Section 210 and deemed to be part of the term Bonds of such Series) and term Bonds of each Series, if any, issued under the provisions of the second paragraph of Section 210, in the order of their issuance, to the extent of the Amortization Requirement, if any, of the then current fiscal year for such term Bonds and any deficiency in preceding fiscal years in the purchase or redemption of such term Bonds;

third, any balance then remaining shall be applied to the purchase or redemption of term Bonds of each such Series in proportion (as nearly as practicable) to the aggregate principal amount of term Bonds of each such Series originally issued; and

fourth, after the retirement of all outstanding term Bonds, serial Bonds issued under the provisions of the Trust Indenture in the inverse order of their maturities, and to the extent that serial Bonds of different Series mature on the same date, in proportion (as nearly as practicable) to the principal amount of Bonds of each Series maturing on said date.

b) Subject to the provisions of paragraph (a) above, the Trustee shall endeavor to purchase Bonds, whether or not such Bonds shall then be subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to interest rate and price, such price not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Bonds if such Bonds should be called for redemption on such date from moneys in the Sinking Fund. Accrued interest on such Bonds to the date of delivery shall be paid from the Bond Service Account and the purchase price shall be paid from the Redemption Account but no such purchase shall be contracted for within the period of forty-five (45) days next preceding any interest payment date on which Bonds are subject to call for redemption under the provisions of the Trust Indenture. All expenses in connection with such purchase shall be paid by PRIDCO from its own funds.

c) Subject to the provisions of Article III of the Trust Indenture and paragraph (a) above, the Trustee shall call for redemption on each date on which Bonds are subject to redemption from moneys in the Sinking Fund such amount of Bonds then subject to the redemption as, with the redemption premium, if any, will exhaust the Redemption Account as nearly as may be; provided, however, that, if at any time any proceeds of insurance on, or of the sale of, any Trusteed Properties shall be on deposit to the credit of the Redemption Account, the Trustee, before calling Bonds for redemption through the application of such proceeds, shall, for such period as it deems to be practicable, endeavor to apply the same to the purchase of Bonds under the provisions of paragraph (b) above without regard to the limitations on the time of purchase therein contained; provided, further that not less than FIFTY THOUSAND DOLLARS (\$50,000) principal amount of Bonds shall be called for redemption at any one time. Accrued interest on such Bonds to the date of redemption shall be paid from the Bond Service Account and the principal and redemption premium shall be paid from the Redemption Account. All expenses in connection with such redemption shall be paid by PRIDCO from its own funds.

Notwithstanding the foregoing, if amounts applied to the retirement of Bonds that would have been applied from the Redemption Account are paid instead by a credit or liquidity facility issuer or other entity insuring, guaranteeing or providing for said payment, amounts deposited in the Redemption Account and allocable to said payments for said Bonds shall be paid, to the extent required under any agreement, to the credit or liquidity facility issuer or entity having theretofore made said corresponding payment.

Reserve Account (Sec. 405). Moneys held for the credit of the Reserve Account or amounts available under any Reserve Account Insurance Policy or Reserve Account Letter of Credit shall first be used for the purpose of paying interest on the Bonds and maturing principal of serial Bonds whenever and to the extent that the moneys held for the credit of the Bond Service Account shall be insufficient for such purpose, and thereafter for the purpose of making the deposits to the credit of the Redemption Account pursuant to the requirements of clause (b) of Section 402 of the Trust Indenture at the end of each of the six (6) months' period specified therein whenever and to the extent that the gross revenues of the Trusteed Properties collected by PRIDCO are insufficient for such purpose. If at any time the moneys held for the credit of the Reserve Account shall exceed the maximum requirement for the Reserve Account under the provisions of clause (c) of Section 402 of the Trust Indenture, such excess shall be transferred by the Trustee to the credit of the Bond Service Account.

In satisfaction of any required deposit into the Reserve Account, PRIDCO may cause to be deposited into the Reserve Account a Reserve Account Insurance Policy or Reserve Account Letter of Credit, as to which any reimbursement obligation in respect of a drawing thereon may be secured by a lien on gross revenues of Trusteed Properties not inconsistent with the provisions of the Trust Indenture and which Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder),

on any date on which moneys are required to be paid out of the Reserve Account pursuant to Section 405 of the Trust Indenture. If a disbursement is made under any Reserve Account Insurance Policy or Reserve Account Letter of Credit, PRIDCO shall be obligated either to reinstate the limits of such Reserve Account Insurance Policy or Reserve Account Letter of Credit following such disbursement or to deposit into the Reserve Account moneys in accordance with the provisions contained in Section 402 of the Trust Indenture in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit. Moneys, Reserve Account Letters of Credit and Reserve Account Insurance Policies held in the Reserve Account shall be interchangeable at the option of PRIDCO. Any moneys on deposit in the Reserve Account in substitution for which a Reserve Account Insurance Policy or Reserve Account Letter of Credit is deposited into the Reserve Account shall, to the extent not required to fund any deficiencies in the amount then required to be on deposit in the Reserve Account, be transferred by the Trustee to the credit of the Bond Service Account. Prior to the expiration date of any Reserve Account Insurance Policy or Reserve Account Letter of Credit then on deposit to the credit of the Reserve Account, PRIDCO shall be required to (x) cause the term of such Reserve Account Insurance Policy or Reserve Account Letter of Credit to be extended, (y) replace any such Reserve Account Insurance Policy with moneys (which may include, without limitation, moneys available under the Reserve Account Insurance Policy or from any other source available for such purpose) or a Reserve Account Letter of Credit, or (z) replace any such Reserve Account Letter of Credit with moneys (which may include, without limitation, moneys available under the Reserve Account Letter of Credit or from any source available for such purpose) or a Reserve Account Insurance Policy, provided that in the event that PRIDCO has not extended or replaced the expiring Reserve Account Insurance Policy or Reserve Account Letter of Credit by the fifth business day prior to the date of expiration, the expiring Reserve Account Insurance Policy or Reserve Account Letter of Credit shall, on such date, be drawn upon to fund the Reserve Account.

Additional Funds To Be Made Available by PRIDCO (Sec. 405). In the event that at any time the gross revenues of the Trusteed Properties together with the amount on deposit to the credit of the Reserve Account, including amounts available under any Reserve Account Insurance Policy or Reserve Account Letter of Credit, are not sufficient to permit the withdrawals and application of moneys in the Bond Service Account in the full amounts required by the provisions of Section 403 of the Trust Indenture or to make the full deposits to the credit of the Redemption Account pursuant to the requirements of clause (b) of Section 402 of the Trust Indenture by the end of any of the six (6) months' periods specified in said clause (b), PRIDCO shall deposit with the Trustee such amounts as are necessary to meet such requirements.

Issuance of Additional Bonds

Additional Bonds may be issued under the provisions of Section 209 of the Trust Indenture for any proper corporate purpose of PRIDCO, provided that the following, among other conditions, are met.

1. PRIDCO is not then, and upon the issuance of the additional Bonds will not be, in default in the performance of any of the covenants, agreements or provisions contained in the Trust Indenture.

2. A certificate, signed by the President and General Manager and by the Controller of PRIDCO not earlier than sixty (60) days prior to the delivery of such Bonds, and approved by an independent and nationally recognized firm of certified public accountants satisfactory to the Trustee, is filed with the Trustee setting forth:

i) the lesser of the amount of one-third of the contingent rentals received by PRIDCO in the thirty-six (36) months immediately preceding the month in which such certificate is signed from the properties which then constitute the Trusteed Properties (whether or not such properties constituted Trusteed Properties for the entire thirty-six (36) months), or the amount of the contingent rentals received from such properties in the twelve (12) months immediately preceding the month in which such certificate is signed, but excluding from both such amounts any contingent rentals received by PRIDCO under lease agreements which are not then in effect;

ii) the amount of the fixed base rentals received by PRIDCO from the Trusteed Properties in the twelve (12) months immediately preceding the month in which such certificate is signed, excluding therefrom any rentals received under lease agreements which are not then in effect or which were renewed at a different rate, but including any such fixed base rentals which would have been received under new lease agreements of Trusteed Properties,

including any agreements which were renewed at different rates, entered into during such twelve (12) months' period if they had been in effect throughout such twelve (12) months' period;

iii) the amount of any cash income received by PRIDCO in the twelve (12) months immediately preceding the month in which such certificate is signed from any mortgages or mortgage bonds included in the Trusteed Properties, excluding therefrom any such income which has ceased to accrue to PRIDCO but including any income which would have been received by PRIDCO from mortgages or mortgage bonds included in the Trusteed Properties acquired by PRIDCO during such twelve (12) months' period if they had been owned by PRIDCO throughout such twelve (12) months' period;

iv) the amount (but not to exceed 20% of the sum of the amounts shown in items (i), (ii) and (iii)) of all the proceeds received by PRIDCO in the twelve months immediately preceding the month in which the certificate is signed (A) from the sale or other disposition of Trusteed Properties in accordance with the Trust Indenture and (B) from the sale of land and any other industrial properties not otherwise included in such sale or disposition;

v) the amount of all income from investment of moneys in the Reserve Account in the twelve months immediately preceding the month in which the certificate is signed;

vi) the estimated average annual gross revenues of the Trusteed Properties and average annual income from investment of moneys in the Reserve Account to be received during the three complete fiscal years after the fiscal year in which the issuance of such Bonds occurs; and

vii) the amount of the maximum Principal and Interest Requirements (as defined in the Trust Indenture) for any fiscal year thereafter on account of all Bonds theretofore issued under the provisions of the Trust Indenture and then outstanding and the Bonds then requested to be authenticated and delivered;

and it shall appear from such certificate that the percentage derived by dividing the sum of the amounts shown in items (i), (ii), (iii), (iv) and (v) of such certificate by the amount shown in item (vii) of such certificate is not less than one hundred twenty-five percent (125%) and the amount shown in item (vi) of such certificate by the amount shown in item (vii) of such certificate is not less than one hundred ten percent (110%).

3. The written opinion of the General Counsel of PRIDCO required by clause (e) of Section 209 of the Trust Indenture in general terms, as to the validity of the Bonds, the pledge of gross revenues of the Trusteed Properties and the title in PRIDCO of the Trusteed Properties is filed with the Trustee.

Refunding Bonds may be issued by PRIDCO under the provisions of Section 210 of the Trust Indenture for the purpose of providing funds for refunding at their maturity all or part of the serial Bonds of any Series which will mature within three (3) months thereafter. Refunding Bonds may also be issued under the provisions of Section 210 of the Trust Indenture at any time or times for the purpose of providing funds for refunding at or prior to their maturity or maturities all of the outstanding Bonds of any Series or outstanding Designated Maturity Bonds, including the payment of any redemption premium thereon and the interest which will accrue on such Bonds to the date fixed for their redemption or their maturity and any expenses in connection with such refunding, and for the purpose of providing moneys for deposit to the credit of the Reserve Account.

Particular Covenants and Provisions

Insurance (Sec. 604). PRIDCO covenants that it will, to the extent reasonably obtainable, at all times carry or cause to be carried by a responsible insurance company or companies:

i) All risk insurance covering all buildings and machinery and equipment included in the Trusteed Properties, including fire insurance in an amount not less than eighty percent (80%) of the insurable value of such buildings, machinery and equipment and hurricane and earthquake insurance in an amount not less than fifty percent (50%) of such insurable value; and

ii) Use and occupancy insurance covering loss of revenues to PRIDCO from any unit of real property hereafter included in the Trusteed Properties from which PRIDCO derived gross income of at least ONE MILLION DOLLARS (\$1,000,000) in the preceding twelve (12) months' period or from which PRIDCO derived an income of at least TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000) in the preceding twelve (12) months' period from contingent rentals, in an aggregate amount of not less than the actual amount of such gross income or contingent rental income, as the case may be, received by PRIDCO in such period.

The proceeds of use and occupancy insurance shall be applied as other gross revenues of the Trusteed Properties as provided in Section 402 of the Trust Indenture. The proceeds of all other insurance shall, at the option of PRIDCO,

i) be deposited with the Trustee in a special account to be applied to the repair, replacement or reconstruction of the damaged or destroyed property (if proceeds are insufficient for such purposes the deficiency shall be supplied by PRIDCO from its own funds; if the proceeds are more than sufficient, the balance shall be applied in the same manner as gross revenues of the Trusteed Properties under Section 402); or

ii) be deposited to the credit of the Redemption Account, or used by PRIDCO for the acquisition or construction of properties specified in clause (b) of Section 604 of the Trust Indenture which will thereupon constitute a part of the Trusteed Properties.

Separate Records of Trusteed Properties; Annual Audits and Reports (Sec. 607). PRIDCO covenants that it will keep separate and accurate records and accounts of the Trusteed Properties and of the gross revenues of the Trusteed Properties.

PRIDCO further covenants that in the first ninety (90) days of each fiscal year it will cause an audit covering the preceding fiscal year to be made of its books and accounts pertaining to all of the properties of PRIDCO, including the Trusteed Properties with the gross revenues therefrom separately stated, by an independent and nationally recognized firm of certified public accountants satisfactory to the Trustee. Promptly after the completion of such audit, reports thereof shall be filed with PRIDCO and the Trustee and mailed to each bondholder who shall have filed his name and address with the Secretary of PRIDCO for such purpose.

Conditions on Sale of Trusteed Properties; Disposition of Proceeds (Sec. 608). PRIDCO covenants that, except as permitted in Section 608 of the Trust Indenture, it will not sell or otherwise dispose of or encumber (other than leasing as provided in Section 401 of the Trust Indenture) the Trusteed Properties or any part thereof.

PRIDCO may sell any of the Trusteed Properties at any time upon the filing with the Trustee of a certificate signed by the President and General Manager and by the Controller of PRIDCO setting forth:

i) the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed, excluding therefrom revenues received from that portion of the Trusteed Properties which PRIDCO proposes to sell and excluding any other gross revenues which have ceased to accrue to PRIDCO, but including any revenues (other than contingent rentals) which would have been received by PRIDCO from any Trusteed Properties under new or renewal lease agreements entered into by PRIDCO during such twelve (12) months' period if such lease agreements had been in effect throughout such twelve (12) months' period;

ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds theretofore issued and then outstanding less such principal amount of outstanding Bonds as can be retired at the then current redemption price from such part of the proceeds of the sale of such portion of the Trusteed Properties which is to be deposited with the Trustee to the credit of the Redemption Account as required or permitted in Section 608; and

iii) the gross revenues received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed on account of that portion of the Trusteed Properties which PRIDCO proposes to sell;

if it appears from such certificate that the percentage derived by dividing the amount shown in item (i) of such certificate by the amount shown in item (ii) thereof is at least one hundred twenty-five percent (125%); provided, however, that if the amount shown in item (iii) of such certificate is more than twenty percent (20%) of all the gross revenues of the Trusteed Properties received by PRIDCO during such preceding twelve (12) months, such certificate shall have been approved by an independent and nationally recognized firm of certified public accountants satisfactory to the Trustee, and PRIDCO shall have agreed with the Trustee to deposit to the credit of the Redemption Account a sum in cash at least equal to that percentage of the total sales price of such Trusteed Properties which the sum set forth in said item (iii) of such certificate bears to all of the gross revenues of the Trusteed Properties received by PRIDCO during such preceding twelve (12) months; and provided, further, that PRIDCO may, at its option, without restriction, deposit a sum in cash equal to any portion of the sales price of any such Trusteed Properties to the credit of the Redemption Account. The sale of any Trusteed Properties under the above provisions must be consummated by PRIDCO not later than sixty (60) days after the date on which such certificate is signed.

PRIDCO may also sell any of the Trusteed Properties at any time if the consideration to be received by PRIDCO for such Trusteed Properties is cash or property of the type included in the definition of Trusteed Properties and if PRIDCO shall have agreed with the Trustee to deposit to the credit of the Redemption Account the total amount of any cash so received and shall have filed with the Trustee a certificate signed by the President and General Manager of PRIDCO designating such property to be so received as "Trusteed Properties" under the Trust Indenture and shall deliver to the Trustee a written opinion of the General Counsel of PRIDCO in the form required by Section 208 of the Trust Indenture as to the title of such property and the validity of the pledge of the revenues therefrom.

PRIDCO may, to the extent permitted by law, mortgage or otherwise encumber the Trusteed Properties or any part thereof for the sole benefit and security of the holders of all Bonds.

Disposition of Moneys Received for Principal of Mortgages or Mortgage Bonds (Sec. 608). Any amounts received by PRIDCO on account of the payment of principal of any mortgages or mortgage bonds included in the Trusteed Properties, other than from the sale thereof, shall be deposited to the credit of the Redemption Account to the extent, if any, necessary to reduce the principal amount of outstanding Bonds so that the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed will be at least equal to one hundred twenty-five percent (125%) of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds then outstanding less such principal amount of outstanding Bonds which can be retired at the then current redemption price from the amount of such payments so deposited to the credit of the Redemption Account.

Control of Other Properties and Revenues of PRIDCO (Sec. 609(a)). Except as provided in subdivision (b) of Section 609 of the Trust Indenture (referred to below under the heading "Limitations on Pledging Other Properties and Revenues for Borrowed Money") any properties, other than the Trusteed Properties, which are owned or are hereafter acquired or constructed by PRIDCO and any and all revenues derived by PRIDCO therefrom, shall remain the property of PRIDCO subject to operation, control and disposition by it and shall not be subject to the lien of the Trust Indenture.

Additions to Trusteed Properties at PRIDCO's Option (Sec. 609(a)). PRIDCO may at any time at its option add to the Trusteed Properties (i) any of its real property which it has acquired or constructed for revenue-producing purposes; (ii) any machinery or other equipment owned by PRIDCO and located in buildings constituting a part of the Trusteed Properties from which PRIDCO is deriving revenues; and (iii) any first mortgages on real property which PRIDCO holds as mortgagee or any first mortgage bonds, whereupon such property, including such mortgages and mortgage bonds, will become a part of the Trusteed Properties and be subject to the provisions of the Trust Indenture. Such additions to the Trusteed Properties will become effective upon the filing of a certificate of the President and General Manager and the delivery to the Trustee of the written opinion of the General Counsel of PRIDCO as provided in Section 609(a) of the Trust Indenture.

Limitations on Pledging Other Properties and Revenues for Borrowed Money (Sec. 609(b)). PRIDCO shall not incur, assume or suffer to be outstanding or otherwise become liable, directly or indirectly for any indebtedness for borrowed money other than the Bonds and bank loans made in the ordinary course for its current operations, unless it is expressly provided in the documents evidencing such indebtedness that if at any time PRIDCO is required to deposit any of its funds with the Trustee to make up deficiencies in the Bond Service Account or the Redemption Account pursuant to the second paragraph of Section 405 of the Trust Indenture, PRIDCO will first apply its available funds to making the deposits in the full amount required by said paragraph to make up such deficiencies before making any further payments on account of the principal of or interest on such indebtedness.

Monthly Report of Gross Revenues of Trusteed Properties (Sec. 609(c)). On or before the tenth (10th) day of each month after the delivery of Bonds under Section 208 of the Trust Indenture, PRIDCO shall file with the Trustee and shall mail to each bondholder who shall have filed his name and address with the Secretary of PRIDCO for such purpose, a certificate signed by the President and General Manager and by the Controller of PRIDCO setting forth (i) the gross revenues of the Trusteed Properties received by PRIDCO during the twelve (12) months immediately preceding the month in which such certificate is signed; and (ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds then outstanding. If a principal underwriter or other representative of the holders of Bonds of a Series issued under Section 209 or 210 of the Trust Indenture is designated, such certificate shall be mailed to such principal underwriter or representative and not to any individual holders of Bonds of such Series.

If it shall appear that the percentage derived by dividing the amount shown in item (i) of such certificate by the amount shown in item (ii) thereof is less than one hundred twenty-five percent (125%), PRIDCO shall immediately designate as Trusteed Properties such other of its revenue-producing real properties, machinery or other equipment, or first mortgages or first mortgage bonds, which have not been encumbered by PRIDCO, as may be necessary in order that the gross revenues of the Trusteed Properties to be derived in the next succeeding twelve (12) months shall be at least one hundred twenty-five percent (125%) of such maximum Principal and Interest Requirements.

Remedies

Among the events described in the Trust Indenture as “events of default” are the following:

- (a) payment of the principal and premium, if any, of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise, or
- (b) PRIDCO shall fail to make any deposits with the Trustee described under “Additional Funds To Be Made Available by PRIDCO” above, or
- (c) payment of any installment of interest shall not be made within 30 days after the same shall become due and payable, or
- (d) PRIDCO shall fail to deposit any of the gross revenues of the Trusteed Properties with the Trustee within 30 days after they have been collected by PRIDCO, or
- (e) PRIDCO shall for any reason be rendered incapable of fulfilling its obligations under the Trust Indenture, or
- (f) except as provided under “Insurance” above, any part of the Trusteed Properties shall be destroyed or damaged to the extent of impairing the obligation of the lessees to pay full rent and shall not be promptly repaired, replaced or reconstructed, or
- (g) notice has been received by the Trustee and PRIDCO that an event of default has occurred under the agreement underlying a credit or liquidity facility or with another entity insuring, guaranteeing or providing for payments of principal or interest in respect of any Bonds, or a failure to make said facility available or to reinstate the interest component of

said facility, in accordance with the terms of said facility, to the extent said notice or failure is established as an event of default under the terms of the resolution authorizing the issuance of said Bonds.

Upon the happening and continuance of any such event of default the Trustee may, and upon the written request of the holders of not less than 20% in principal amount of the Bonds then outstanding shall, by notice in writing to PRIDCO, declare the principal of all of the Bonds then outstanding to be due and payable immediately, and, provided it shall be indemnified to its satisfaction, the Trustee may, and upon the written request of the holders of not less than 20% in principal amount of the Bonds then outstanding shall, proceed to protect and enforce its rights and the rights of the Bondholders under the Trust Indenture by a suit, action or special proceeding in equity or at law, or by a proceeding in the office of any board or officer having jurisdiction, either for the appointment of a receiver of the Trusteed Properties as authorized by the Act, or for the specific performance of any covenant or agreement contained in the Trust Indenture or in aid or execution of any power granted in the Trust Indenture or for the enforcement of any proper legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce the rights aforesaid.

It is the intent of the Trust Indenture that all proceedings shall be instituted and maintained for the benefit of all holders of the outstanding Bonds.

Supplemental Indentures

PRIDCO and the Trustee may, without the consent of the holders of Bonds, enter into such indentures or agreements supplemental to the Trust Indenture as shall not be inconsistent with the Trust Indenture, to cure any ambiguity or formal defect or omission in the Trust Indenture or in any supplemental indenture or to grant to or confer upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders or the Trustee.

All other such agreements shall require the consent of the holders of not less than two-thirds in aggregate principal amount of the Bonds then outstanding prior to their execution; provided, however, that nothing contained in the Trust Indenture shall permit, or be construed as permitting, (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of gross revenues of the Trusteed Properties other than the lien or pledge created by the Trust Indenture, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture.

Defeasance

Release of Trust Indenture (Sec. 1101). If, when all Bonds have become due and payable in accordance with their terms or otherwise as provided in the Trust Indenture or shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption or payment shall have been given by PRIDCO to the Trustee, the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of the Bonds and coupons then outstanding shall be paid or sufficient moneys, or Government Obligations, Prerefunded Municipals or Time Deposits secured in the manner set forth in Section 501 of the Trust Indenture, which shall not contain provisions permitting the redemption thereof other than at the option of the holder, the principal of and the interest on which when due, and without reinvestment thereof, will provide sufficient moneys, shall be held by the Trustee or the Paying Agents for such purpose, and provision shall also have been made for paying all other sums payable by PRIDCO under the Trust Indenture, then the right, title and interest of the Trustee shall cease, terminate and become void and the Trust Indenture shall be released. For purposes of determining whether sufficient amounts have been deposited for defeasance, the interest to become due on Variable Rate Bonds shall be calculated at the maximum rate permitted by the terms thereof, and the principal to become due on Put Bonds and Extendible Maturity Bonds shall mean the amount payable upon the exercise of put options by holders of said Bonds or extension of maturities by the holders of said Bonds.

B. SUMMARY OF CERTAIN PROVISIONS OF PROPOSED SUPPLEMENTAL INDENTURES

The following are definitions of certain terms used in and summaries of certain provisions of the Proposed Supplemental Indentures in their current form. The summary does not purport to be complete and reference is made to the Proposed Supplemental Indentures, copies of which are available in substantially final form for examination at the office of the Trustee.

Third Supplemental Indenture

The Trust Indenture will be supplemented to provide that PRIDCO may grant a lien on gross revenues of Trusteed Properties on a parity with the lien of the holders of Bonds to providers of credit or liquidity facilities securing the Bonds.

Sixth Supplemental Indenture

Excess Reserve Account Moneys

The Trust Indenture will be amended to provide that (1) if at any time the moneys to the credit of the Reserve Account exceed the maximum Principal and Interest Requirements for the then current or any future fiscal year on account of all Bonds outstanding, the Trustee shall apply such excess to make up any deficiency in the deposits required to be made to the credit of the Bond Service Account and the Redemption Account and the balance, if any, shall be paid to PRIDCO upon its request for use for any proper corporate purpose and (2) any moneys on deposit in the Reserve Account in substitution for which a Reserve Account Insurance Policy or a Reserve Account Letter of Credit is deposited into the Reserve Account shall, to the extent not required to make up any deficiency in the deposits required to be made to the credit of the Bond Service Account and the Redemption Account, be released and immediately paid over to PRIDCO to be used by PRIDCO for any of its proper corporate purposes.

Other Amendments

The Trust Indenture will be amended to provide that the interest derived from the deposit or investment of moneys to the credit of each redemption fund created for paying principal, redemption premium and interest on any Bonds to be refunded (the "Redemption Fund Income") shall only be used by the Trustee for the payment of the Bonds that have been refunded and shall not be deposited to the credit of the Bond Service Account. The Trust Indenture will also be supplemented to (i) eliminate the requirement that PRIDCO maintain use and occupancy insurance on a certain tourist property which PRIDCO has disposed of in accordance with the Trust Indenture, (ii) include a definition of President and General Manager of PRIDCO that will encompass any person designated by the Board of PRIDCO or authorized by its by-laws to perform the functions of the President and General Manager, and (iii) permit that the Trust Indenture and all supplements then in effect be restated into a single document.

APPENDIX II
AUDITED FINANCIAL STATEMENTS

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ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Puerto Rico Industrial Development Company:

We have audited the accompanying consolidated balance sheets of Puerto Rico Industrial Development Company (an enterprise fund of the Commonwealth of Puerto Rico) and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements and the supplementary Exhibit are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the supplementary Exhibit based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office's Government Auditing Standards (1994 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Industrial Development Company and subsidiaries as of June 30, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The data contained in the supplementary Exhibit is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



San Juan, Puerto Rico,
August 29, 1997.

1454595



PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

CONSOLIDATED BALANCE SHEETS--JUNE 30, 1997 AND 1996

(Dollars in Thousands)

ASSETS

	<u>1997</u>	<u>1996</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,404	\$ 25,610
Sinking fund--redemption and bond service accounts	16,733	16,427
Receivables, net	18,075	16,564
	42,212	58,601
PROPERTY AND EQUIPMENT:		
Property and equipment, net	405,582	389,305
Land held for improvement or sale	111,202	108,629
	516,784	497,934
OTHER ASSETS:		
Sinking fund reserve account at accreted cost, market value of \$37,411 and \$34,730 in 1997 and 1996, respectively	38,692	36,780
Other	3,667	3,431
	42,359	40,211
	<u>\$601,355</u>	<u>\$596,746</u>

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Current maturities-		
Bonds payable	\$ 19,330	\$ 17,915
Notes and loans payable	762	452
Contract retentions and deposits	9,065	7,320
Accrued interest	4,822	5,476
Accounts payable and other accrued liabilities	29,727	23,569
	63,706	54,732
LONG-TERM DEBT:		
Bonds payable	139,064	155,740
Notes and loans payable	36,291	32,722
	175,355	188,462
Total liabilities	239,061	243,194
CAPITAL:		
Contributed capital	314,473	310,306
Retained earnings	47,821	43,246
Total capital	362,294	353,552
	<u>\$601,355</u>	<u>\$596,746</u>

The accompanying notes are an integral part of these consolidated balance sheets.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEARS ENDED JUNE 30, 1997 AND 1996

(Dollars in Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES:		
Rental income, substantially from industrial properties	\$50,025	\$49,115
Interest income, principally from funds held by trustee	3,662	4,118
Net gain on sale of property	2,510	8,985
	-----	-----
	56,197	62,218
	-----	-----
EXPENSES:		
Salaries and wages	14,306	13,882
Administrative and general	7,954	9,508
Depreciation and amortization	12,330	11,064
Maintenance and repairs	3,835	4,339
Provision for uncollectible accounts and environmental matters	3,500	3,500
	-----	-----
	41,925	42,293
Expenses capitalized	(4,646)	(2,313)
	-----	-----
	37,279	39,980
	-----	-----
FINANCE CHARGES:		
Interest expense	14,087	15,560
Amortization of debt issue costs	256	313
	-----	-----
	14,343	15,873
	-----	-----
Net income	4,575	6,365
RETAINED EARNINGS, beginning of year	43,246	36,881
	-----	-----
RETAINED EARNINGS, end of year	<u>\$47,821</u>	<u>\$43,246</u>

The accompanying notes are an integral part of these consolidated statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1997 AND 1996

(Dollars in Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,575	\$ 6,365
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	12,330	11,064
Provision for uncollectible receivables	2,500	2,500
Provision for environmental matters	1,000	1,000
Net gain on sale of property	(2,510)	(8,985)
Accretion of investments held in the Sinking Fund Reserve Account	(1,912)	(1,970)
Accretion on capital appreciation bonds payable	2,654	2,581
Amortization of debt issue costs	256	313
Changes in assets and liabilities -		
Increase in receivables	(4,011)	(3,592)
Increase in other assets	(492)	(883)
Increase (decrease) in contract retentions and deposits	1,745	(603)
Decrease in accrued interest	(654)	(187)
Increase in accounts payable and other accrued liabilities	5,158	5,419
	-----	-----
Total adjustments	16,064	6,657
	-----	-----
Net cash provided by operating activities	20,639	13,022
	-----	-----
CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES:		
Contributions received from the Commonwealth of Puerto Rico and U.S. federal agencies	4,167	8,244
	-----	-----
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of property	5,799	22,275
Additions to property and equipment	(34,469)	(21,106)
Payments of notes and loans payable	(6,121)	(1,917)
Proceeds from issuance of notes payable	10,000	1,418
Net deposits to sinking fund - redemption and bond service accounts	(306)	(235)
Redemption of bonds	(17,915)	(16,845)
	-----	-----
Net cash used in capital and related financing activities	(43,012)	(16,410)
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,206)	4,856
	-----	-----
CASH AND CASH EQUIVALENTS, beginning of year	25,610	20,754
	-----	-----
CASH AND CASH EQUIVALENTS, end of year	\$ 7,404	\$25,610

The accompanying notes are an integral part of these consolidated statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1997 AND 1996

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Puerto Rico Industrial Development Company (PRIDCO or the Company), an enterprise fund of the Commonwealth of Puerto Rico, was established as a public corporation of the Commonwealth of Puerto Rico in 1942 by Law No. 188, as amended. The Company was created primarily to stimulate the formation of new local enterprises and to encourage United States mainland and foreign investors to establish and expand operations in Puerto Rico. To accomplish its mission, PRIDCO constructs industrial facilities for lease or sale to qualified enterprises.

The financial statements of PRIDCO are included as an enterprise fund in the financial statements of the Commonwealth of Puerto Rico and conform to the standards and practices established by the Governmental Accounting Standards Board (GASB). The Company has adopted Governmental Accounting Standard Board's Statement No. 20 (GASB No. 20), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", which indicates that a proprietary activity should apply all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARBs) of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Besides applying all the above-mentioned pronouncements, under GASB No. 20, a proprietary activity may choose to apply all FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Company has elected not to apply FASB statements and interpretations issued after November 30, 1989, in accordance with the provisions of GASB No. 20.

PRIDCO also administers the Special Incentives Program. This program consists of government funds, appropriated by the Legislature, for reimbursements to manufacturers related to allowable start-up costs or for improvements in infrastructure that result in better manufacturing facilities.

Principles of Consolidation

The consolidated financial statements include the accounts of PRIDCO, and its wholly owned subsidiaries, except for Puerto Rico Southern Industrial Development Company, a wholly owned subsidiary (see Note 6). All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition

Income from leasing activities related to industrial properties is reported as revenue over the life of the leases. Most of the Company's leases are in effect cancelable.

Reserve for Uncollectible Receivables

An allowance for losses in the collection of receivables is provided by periodic charges to current operations. The allowance for uncollectible receivables is based on management's evaluation of potential losses after considering economic conditions and other pertinent factors. Receivables, which are deemed to be uncollectible, are written off against the allowance.

Contributed Capital

PRIDCO submits requests to the Legislature and to certain agencies of the Commonwealth of Puerto Rico and of the United States of America for appropriations to continue its programs of construction of industrial facilities and industrial incentives. Appropriations for construction of industrial facilities are accounted for as contributed capital when construction costs of infrastructure incentives on PRIDCO's property are incurred.

Property and Equipment

Property and equipment is stated at cost of construction and includes, among others, indirect costs consisting of payroll taxes and other fringe benefits and interest charged during construction. Depreciation is computed on the straight-line method at rates considered adequate to allocate the cost of the various classes of property over their estimated service lives.

Additions, renewals and betterments, unless of relatively minor amounts, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any profit or loss on disposition is credited or charged to income.

Interest Recognition

Interest income and interest expenses are recognized on the accrual basis using a method substantially equivalent to the interest method.

Interest and Expenses Capitalization

PRIDCO capitalizes interest applicable to funds used during the construction of property. In addition, the Company capitalizes indirect costs related to the construction program.

Debt Issue Costs

Debt issue costs are amortized to expense over the life of the debt to which they relate using a method substantially equivalent to the interest method.

Tax Exemption

PRIDCO, by law, is exempt from the payment of income, property and municipal license taxes.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash in bank and certificates of deposit with original maturities of three months or less at the time of purchase.

Interest paid during fiscal years 1997 and 1996 were \$14,742,000 and \$14,495,000, respectively.

2. CASH AND CASH EQUIVALENTS:

Pursuant to the laws of Puerto Rico, PRIDCO's cash shall be held only in banks designated by the Puerto Rico Secretary of the Treasury as depository institutions of public funds. The laws stipulate that such deposits shall be guaranteed by sufficient collateral held under the name and custody of the Secretary of the Treasury.

As of June 30, 1997 and 1996, all deposits were entirely insured or collateralized according to the aforementioned requirements.

3. SINKING FUNDS:

Sinking funds' balances are mostly composed of United States Government Securities and time deposit open accounts. As indicated in Note 2, all cash balances are guaranteed by securities held in custody by the Secretary of the Treasury. The investments in government securities are held by PRIDCO's trustee, State Street Company, N.A., in accordance with the Trust Indenture.

As of June 30, 1997 and 1996, the sinking fund balance held for Puerto Rico Industrial Investment Corporation's (PRIICO) (a Puerto Rico not-for-profit corporation, whose sole member is PRIDCO) Series A, 1990 general obligation bonds was comprised of a 4.95% and 4.98%, respectively, variable rate time deposit open account. As of June 30, 1997 and 1996, PRIICO's sinking fund balances were maintained by Banco Popular de Puerto Rico, its trustee.

4. RECEIVABLES:

Receivables as of June 30 consist of the following:

	<u>1997</u>	<u>1996</u>
	(Dollars in thousands)	
Rent receivable	\$32,660	\$30,459
Interest receivable	2,610	2,336
Others	20,790	21,260
	-----	-----
Allowance for uncollectible receivables	56,060	54,055
	(37,985)	(37,491)
	-----	-----
	<u>\$18,075</u>	<u>\$16,564</u>

5. PROPERTY AND EQUIPMENT:

Property and equipment as of June 30 consist of the following:

	Useful Lives (Years)	<u>1997</u>			<u>1996</u>	
		<u>Industrial</u>	<u>Operating</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
(Dollars in thousands)						
Land held for improvement or sale		\$111,202	\$ -	\$ -	\$111,202	\$108,629
Land and buildings	50	471,345	40,769	2,877	514,991	498,599
Machinery and equipment	5-15	21,991	4,303	62	26,356	24,306
Other	10-15	28,469	5,279	361	34,109	32,499
		-----	-----	-----	-----	-----
		633,007	50,351	3,300	686,658	664,033
Less-						
Accumulated depreciation		(164,629)	(14,487)	(1,080)	(180,196)	(168,619)
		-----	-----	-----	-----	-----
		468,378	35,864	2,220	506,462	495,414
Construction in progress		10,322	-	-	10,322	2,520
		-----	-----	-----	-----	-----
		<u>\$478,700</u>	<u>\$35,864</u>	<u>\$2,220</u>	<u>\$516,784</u>	<u>\$497,934</u>

**6. INVESTMENT IN AND ADVANCES TO PUERTO RICO
SOUTHERN INDUSTRIAL DEVELOPMENT COMPANY:**

Puerto Rico Southern Industrial Development Company (SIDCO) is an unconsolidated subsidiary engaged in promoting the development of the economy of Puerto Rico. The net investment and advances to SIDCO are included in *Other* in the accompanying balance sheet.

SIDCO's only project consists of a facility in Guayama, which was reconstructed, remodeled and leased to a pharmaceutical company.

The cancelable lease agreement entered on May 26, 1983, calls for an annual rental equal to the amounts due and payable by SIDCO under various notes payable agreements and any other expenses incurred by SIDCO related to the facility's construction. The lease after the exercise of one of the two seven-year renewal options, expires on December 31, 1999. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant related obligations plus \$750,000.

Summarized information regarding SIDCO's assets follows:

	<u>1997</u>	<u>1996</u>
	(Dollars in thousands)	
Current assets	\$ 1,324	\$ 1,205
Land and plant	88,623	88,623
	-----	-----
Total assets	89,947	89,828
Contribution by pharmaceutical company	(88,367)	(88,256)
Other liabilities	(643)	(635)
	-----	-----
Investment in and advances to SIDCO	<u>\$ 937</u>	<u>\$ 937</u>

SIDCO's only operations for the years ended June 30, 1997 and 1996, were leasing this facility.

It is management's opinion that the pharmaceutical company will exercise its purchase option in the future. Accordingly, the assets of SIDCO have not been consolidated within PRIDCO's consolidated financial statements.

7. REFUNDING BONDS AND GENERAL PURPOSE REVENUE BONDS:

As required by the Trust Indenture dated July 1, 1964, between PRIDCO and State Street Company, N.A. (the Trustee), PRIDCO has pledged and assigned to the Trustee the gross revenues from certain properties (known as trustee properties) for the payment of the Refunding and General Purpose Revenue Bonds, Series 1967 to 1991, except for the Series A 1990 Bonds. In the event that the gross revenues from trustee properties and the amounts deposited with the Trustee are not sufficient, PRIDCO shall deposit with the Trustee such amounts as necessary to meet the debt service requirements.

Payment of principal and interest of the Series A 1990 Bonds is secured by an assignment of the lease revenues of a subsidiary, relating to the Fomento Building due from PRIDCO and, in addition, guaranteed by PRIDCO under an agreement between PRIDCO and the trustee, Banco Popular de Puerto Rico, dated March 1, 1990. PRIDCO's obligation under the above guarantee is subordinated to its obligation to provide for the payment of its bonds issued under the trust indenture between PRIDCO and State Street Company, N.A.

Revenue Refunding and General Purpose Revenue Bonds outstanding at June 30 are as follows:

	<u>1997</u>	<u>1996</u>
	(Dollars in thousands)	
Revenue Refunding Bonds and General Purpose Revenue Bonds -		
Series 1978-		
Term bonds, 8%, due on January 1, 2003	\$ 17,250	\$ 19,495
Series 1988-		
Serial bonds, 6.75% - 7.85%, due annually through June 30, 1998	9,410	13,315
Series A 1990-		
Serial bonds, 7.75% - 8%, due annually through March 1, 1999	4,635	6,520
Capital appreciation bonds, implicit interest rates of 8.08% - 8.27%, due on March 1, 2000 through March 1, 2006	11,253	10,403
Series 1991-		
Serial bonds, 3.88% - 7.75%, due semiannually through July 1, 2007	50,905	60,785
Term bond, 8%, due on July 1, 2016	40,520	40,520
Capital appreciation bonds, implicit interest rates of 7.75% - 8.05%, due on July 1, 2002 through July 1, 2012	24,421	22,617
	-----	-----
	158,394	173,655
Less- Current maturities	(19,330)	(17,915)
	-----	-----
	<u>\$139,064</u>	<u>\$155,740</u>

Series 1990 and 1991 of the capital appreciation bonds will appreciate to a maximum of \$17,290,000 and \$35,596,000, respectively, through their corresponding maturity dates.

8. NOTES AND LOANS PAYABLE:

Notes and loans payable as of June 30 consist of the following:

	<u>1997</u>	<u>1996</u>
	(Dollars in thousands)	
Note payable to a commercial bank, used to finance the construction of industrial rental properties, bearing interest at 7.125% and payable in monthly installments of \$62 through May 5, 1998. This note is secured by an \$8,000,000 mortgage on land. During 1997, the note was renewed with interest at LIBOR rate for the first five years at 6.8125%, payable in monthly installments of \$89 through June 6, 2012. This note is secured by \$10,000,000 mortgage.	\$10,000	\$ 5,966
Note payable to the Commonwealth of Puerto Rico Government Development Bank (GDB), used to finance the acquisition of industrial rental properties at Aguadilla, bearing a variable interest rate. Payable in monthly installments of \$24 through April 1, 2001, and secured by a mortgage on the land and related structures. Interest rate at June 30, 1997 and 1996, was 6.75% and 6.56%, respectively.	1,516	1,692
Note payable to GDB, under a line of credit arrangement used to finance a portion of PRIDCO's capital improvement program, maturing on an annual basis with an automatic renewal feature. Interest rate at June 30, 1997 and 1996, was 6.75% and 6.44%, respectively.	25,000	25,000
Other loans including capital lease agreements, secured by certain properties, at interest rates ranging from 7% to 8%.	537	516
	-----	-----
	37,053	33,174
Less- Current maturities	(762)	(452)
	-----	-----
	<u>\$36,291</u>	<u>\$32,722</u>

**9. SINKING FUND REQUIREMENTS AND MATURITIES
OF NOTES AND LOANS PAYABLE TO BANKS:**

Sinking fund requirements of the Revenue Refunding and General Purpose Revenue Bonds and maturities of long-term debt for the next five fiscal years are as follows:

<u>Year</u>	<u>Sinking Fund Requirements</u>		<u>Maturities of Notes and Loans Payable to Bank</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
	(Dollars in thousands)			
1998	\$ 19,330	\$ 8,886	\$ 762	\$ 28,978
1999	18,215	7,511	733	35,691
2000	9,766	7,871	790	18,011
2001	10,303	7,341	1,465	18,586
2002	10,930	6,716	633	17,656
Thereafter	89,850	75,748	32,670	190,598
	<u>\$158,394</u>	<u>\$114,073</u>	<u>\$37,053</u>	<u>\$309,520</u>

10. RETIREMENT PLAN:

Employees of the Company participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the System). The System is a defined benefit cost-sharing multi-employer plan sponsored by the Commonwealth of Puerto Rico (the Commonwealth) under the terms of the Act. No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Members who have attained at least fifty-five (55) years of age and have completed at least thirty (30) years of creditable service or members who have attained at least fifty-eight (58) years of age and have completed at least ten (10) years of creditable services are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive up to a maximum of 65% of the average compensation or if they have attained fifty-five (55) years of age will receive up to a maximum of 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average compensation. However, for non-occupational disability a member must have at least ten (10) years of creditable service.

Act No. 1 of 1990, made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to one and one-half percent of the average compensation for all years of creditable service, a decrease in the maximum disability and death benefits annuities from 50% to 40% of average compensation, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. The Company is required to contribute 9.275% of its employees' gross salaries.

The Company follows the provisions of the Government Accounting Standards Board No. 27, "Accounting for Pensions by State and Local Governmental Employers", which requires employers that participate in cost-sharing multi-employer defined benefit pension plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions. The Company contractually required contributions for the years ended June 30, 1997, 1996 and 1995, amounted to \$1,164,000, \$993,000, and \$919,000, respectively. The percentages of the Company's required contributions were equal to the ones actually made to the System for the years ended June 30, 1997, 1996 and 1995.

Additional information on the System is provided in its financial statements for the year ended June 30, 1997.

11. CONTRIBUTED CAPITAL:

PRIDCO's contributed capital is represented by (1) nonreimbursable legislative appropriations and (2) donations, including contributions in aid of construction, mainly from various agencies of the Government of the United States and the Commonwealth of Puerto Rico. The increase during 1997 and 1996 resulted from the following:

	<u>1997</u>	<u>1996</u>
	(Dollars in thousands)	
Balance at beginning of year	\$310,306	\$302,062
Capital contribution from Incentives Fund	4,167	8,244
	-----	-----
Balance at end of year	<u>\$314,473</u>	<u>\$310,306</u>

Contributions received from the Incentives Fund of the Commonwealth of Puerto Rico represent nonreimbursable legislative assignments used solely for infrastructure and other improvements to PRIDCO's industrial facilities.

12. CONSTRUCTION PROGRAM:

For the year ending June 30, 1998, PRIDCO estimates expenditures of approximately \$35,192,000 for construction, land acquisition and development. The expenditures will be financed through internally generated funds, federal grants, legislative infrastructure incentives and external financing sources.

13. CONTINGENCIES:

Environmental Matters

Various claims and lawsuits to which PRIDCO was a party, and which related among other matters to the Federal Environmental Protection Agency (EPA) and the state's Environmental Quality Board (EQB) of the Commonwealth of Puerto Rico have been settled or otherwise resolved.

The resolution of those legal actions included various environmental issues to which PRIDCO did not stipulate liability under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA/Superfund) and other federal legislation. CERCLA establishes procedures and standards for responding to releases of hazardous substances, pollutants and contaminants.

Under CERCLA and its regulations, liability for the clean-up costs from damage to natural resources and any health assessment of health effects may be imposed on the present and past owner or operator of a facility from which there was a release of hazardous substances in addition to any person who arranged for disposal or treatment of hazardous substances at a site from which there was a release.

Financial responsibility for clean-up costs has been and/or is being undertaken by the industrial potentially responsible parties (PRP's) at the two CERCLA sites (Fibers Wells and Vega Alta) where the federal government named PRIDCO as a PRP solely for being a part-owner of both sites. PRIDCO's participation in the site remediation efforts is limited to providing in-kind support to the industrial PRP's implementation of the clean-up programs and consequently, does not involve any cash disbursements to the federal government or the industrial PRP groups.

■ Guanajibo - Castillo Industrial Park

Numerous current and former workers of the Guanajibo Industrial Park claimed health and environmental damage caused by the emission of gases from the sewer system at the Industrial Park. The plaintiffs sought the creation of two funds: one to pay for the investigation of the alleged problem and removal of hazardous substances, and the other to cover the cost of medical monitoring of exposed persons and for other medical expenses. In addition, compensatory damages in amounts exceeding \$10,000 for each plaintiff have been sought. In February 1992, PRIDCO and the plaintiffs' representative executed a document entitled "Settlement of Claims", whereby PRIDCO agreed to pay \$22,000 in consideration for which the plaintiffs agreed to release all claims against PRIDCO. On August 19, 1992, an order was issued in which all

plaintiff's claims against PRIDCO in the Federal Court lawsuit were dismissed with prejudice. Plaintiff's attorneys have provided PRIDCO with copies of releases executed by seventy-three of the one hundred plaintiffs in the Federal Court lawsuit.

On February 7, 1992, PRIDCO received a letter from an attorney on behalf of 231 listed "complainants" purporting that PRIDCO, among others, is in violation of a number of federal environmental statutes. Such letter concludes by stating that the complainants intend to commence a civil action. No further events have transpired regarding this letter.

■ Vega Alta Site

The Environmental Protection Agency (EPA) has notified PRIDCO and five of PRIDCO's tenants that they are potentially responsible parties at the Vega Alta Wellfield site (Vega Alta site), located in an industrial park owned by PRIDCO in Vega Alta, Puerto Rico, which is on EPA's National Priority List since 1984.

In early 1996, the Department of Justice moved for entry of the Consent Decree; pursuant to which the United States would be reimbursed \$2.65 million for oversight costs in the case by the stipulating parties. PRIDCO is a participant in the settlement and will receive the benefits of the settlement (including contribution protection), although, by agreement with the U.S. government and the co-defendants, PRIDCO will not be contributing financially to the settlement.

Since 1994, PRIDCO and the other PRP's at the site (along with various other Puerto Rico and United States governmental entities) have received notices of intent to sue pursuant to various citizen suit provisions under CERCLA, federal and Puerto Rico common law, including tort and nuisance claims, from owners of adjacent properties. These parties allege substantial damages associated with the claimed inability to develop their property(ies) due to groundwater contamination. The industrial parties, but not PRIDCO, were involved in a lawsuit in the Federal District Court on August 1997.

PRIDCO's position regarding the threatened litigation is to vigorously defend against all potential claims which may be lodged against it. Since there has been no discovery in this case, management, after consulting with legal counsel, is unable to formulate an opinion on the potential outcome of the case and the potential liability, if any, to the Company.

■ Guayama Site

PRIDCO owns property which comprises a portion of the site known as the "Fibers Public Supply Wells Superfund Site" in Guayama. In September 1991, EPA selected a remedy for the site which may cost up to \$10 million (present-valued).

The potentially responsible industrial parties (the Group) excluding PRIDCO, settled with EPA for performance of and payment for the selected remedy. Subsequently, the Group and PRIDCO finalized a separate agreement on July 6, 1993, with EPA's approval. Under that agreement the Group assumed payment of past response costs at the site including \$150,000, plus interest, which EPA had sought to recover from PRIDCO.

Furthermore, PRIDCO covenanted to provide "in-kind" services with a value of \$465,000 (with no cash disbursement) to supplement the Group's efforts at the site with the objective of protecting the property and PRIDCO's rights as a landowner without admitting any fact, responsibility, faults, or liability in connection to the site. Implementation of the remedy is in progress. The first phase (soil remediation) was completed on January 20, 1994.

■ Other Site

In addition to the cases outlined above, PRIDCO has taken vigorous actions to identify any other potential claim or liability arising from environmental deficiencies and has provided in the accompanying consolidated balance sheets as of June 30, 1997 and 1996, for any of these deficiencies where a probable loss is foreseen. Management believes that any unidentified environmental deficiencies and related costs will not have a material adverse effect on PRIDCO's results of operations and financial condition.

To that effect, PRIDCO is presently implementing an EPA-approved environmental program as part of a pilot supplemental environmental project aimed at reducing environmentally related risk at its properties. The objectives of the project are to systematically identify tenants who manage regulated chemicals or wastes and to follow-up their operations at their facilities.

The pilot project is being implemented in accordance with an Order on Consent with the EPA entered on June 28, 1996, in which PRIDCO agreed to pay \$4,000, for alleged violations of federal hazardous waste storage rules arising from a former tenant's (Metal Finishing Corporation in Toa Baja) abandonment of hazardous chemicals at the property. Project implementation costs were estimated at \$172 over the project duration period, which concludes on December 9.

Nonenvironmental Matters

PRIDCO is also a party to certain other lawsuits resulting from the normal course of business in which management believes the final outcome will not have a material effect on the Company's financial position or results of operations.

14. PROPOSED TRANSFER OF ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) TO PRIDCO:

The Governor of Puerto Rico presented to the legislature a bill that would permit the transfer of the Economic Development Administrations (EDA) (an agency of the Commonwealth of Puerto Rico) to PRIDCO and which denominates PRIDCO as the surviving entity. Also, a related bill contemplates an early retirement option to be offered to eligible employees of both PRIDCO and EDA. Management believes that the proposed bill will enable PRIDCO to improve its efficiency in the promotion and development of new investment programs and increase the rentability of PRIDCO's industrial facilities. In management's opinion, the proposed bill, if approved, will not have a material adverse effect in PRIDCO's financial condition. EDA'S authority, duties and responsibilities would be transferred to PRIDCO as established by a reorganization plan. As in the proposed legislation the existing balances and other available funds will be transferred effective as of January 1998.

15. REVENUE SOURCES:

All of PRIDCO's revenue is generated within the Commonwealth of Puerto Rico. A significant portion of revenue is derived from United States mainland companies most of which operate in Puerto Rico under Section 936 of the U.S. Internal Revenue Code. Section 936 was eliminated during 1996 with a 10-year phase-out period. However, management does not foresee a major impact in PRIDCO's operations due to the elimination of such section.

16. SPECIAL INCENTIVES PROGRAM:

PRIDCO submits annual requests to the Legislature for appropriations to continue the Special Incentives Program. Upon receipt from the Legislature, PRIDCO deposits such funds in a special account over which the Company only has administrative responsibilities. The funds do not belong to PRIDCO, consequently, the available funds are not recorded in the balance sheet.

17. RECLASSIFICATIONS:

Certain reclassifications have been made to the 1996 financial statements to be consistent with the current year presentation.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

STATEMENT OF CHANGES IN CASH AND SINKING FUND PER TRUST INDENTURE

FOR THE YEAR ENDED JUNE 30, 1997

(Dollars in Thousands)

	General Fund		State Street Trust Indenture Sinking Fund			BPPR Trust Indenture Sinking Fund			
	Total	Revenue Fund	Redemption Account	Interest	Principal	Reserve Account	Revenue Fund	Interest	Principal
BALANCE, JUNE 30, 1996	\$78,817	\$ 25,610	\$47	\$4,926	\$10,500	\$36,780	\$ -	\$295	\$ 659
Cash provided by operating activities	20,639	(3,820)	-	-	-	-	-	-	-
Sale of property and equipment and land held for improvement or sale	5,799	5,799	-	-	-	-	-	-	-
Additions to property and equipment and land held for improvement or sale	(34,469)	(34,469)	-	-	-	-	-	-	-
Cash receipts retained by Trustee for sinking fund requirements	-	-	-	9,078	16,750	-	(3,879)	491	2,019
Payment of bonds, due on July 1, 1996, and January 1, 1997	(17,915)	-	-	-	(16,030)	-	-	-	(1,885)
Payment of interest	-	10,117	-	(9,602)	-	-	-	(515)	-
Accretion of U.S. Treasury bond strips held by Trustee	1,912	-	-	-	-	1,912	-	-	-
Proceeds from notes and loans payable	10,000	-	-	-	-	-	10,000	-	-
Payment of notes and loans payable	(6,121)	-	-	-	-	-	(6,121)	-	-
Contributions received from the Commonwealth Government and federal agencies	4,167	4,167	-	-	-	-	-	-	-
BALANCE, JUNE 30, 1997	\$62,829	\$ 7,404	\$47	\$4,402	\$11,220	\$38,692	\$ -	\$271	\$ 793

(Continues)

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

STATEMENT OF CHANGES IN CASH AND SINKING FUND PER TRUST INDENTURE

FOR THE YEAR ENDED JUNE 30, 1997

(Dollars in Thousands)

(Continuation)

	State Street Trust Indenture Sinking Fund				BPPR Trust Indenture Sinking Fund				
	<u>General Fund</u>	<u>Revenue Fund</u>	<u>Redemption Account</u>	<u>Interest</u>	<u>Principal</u>	<u>Reserve Account</u>	<u>Revenue Fund</u>	<u>Interest</u>	<u>Principal</u>
<u>Total</u>	\$ 7,404	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents and available for operations	-	-	47	4,402	11,220	-	-	271	793
Cash and certificates of deposit held by the Trustee	-	-	-	-	-	38,692	-	-	-
Investment in U.S. Treasury Bond Strips, at accreted cost, held by the Trustee (market value \$37,411)	\$ 7,404	\$ -	\$ 47	\$ 4,402	\$ 11,220	\$ 38,692	\$ -	\$ 271	\$ 793
	=====	=====	=====	=====	=====	=====	=====	=====	=====

BALANCE, JUNE 30, 1997, represented by:
Cash and cash equivalents and available
for operations
Cash and certificates of deposit held by
the Trustee
Investment in U.S. Treasury Bond Strips,
at accreted cost, held by the Trustee
(market value \$37,411)

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

STATEMENT OF CHANGES IN CASH AND SINKING FUND PER TRUST INDENTURE

FOR THE YEAR ENDED JUNE 30, 1996

(Dollars in Thousands)

	State Street Trust Indenture Sinking Fund			BPPR Trust Indenture Sinking Fund					
	General Fund	Revenue Fund	Redemption Account	Interest	Principal	Reserve Account	Revenue Fund	Interest	Principal
BALANCE, JUNE 30, 1995	\$71,756	\$ -	\$47	\$ 5,388	\$ 9,860	\$34,810	\$ -	\$316	\$ 581
Cash provided by operating activities	13,022	25,835	-	-	-	-	2,453	-	-
Sale of property and equipment and land held for improvement or sale	22,275	-	-	-	-	-	-	-	-
Additions to property and equipment and land held for improvement or sale	(21,106)	-	-	-	-	-	-	-	-
Cash receipts retained by Trustee for sinking fund requirements	-	(25,835)	-	10,100	15,735	-	(2,453)	625	1,828
Payment of bonds, due on July 1, 1995, and January 1, 1996	(16,845)	-	-	-	(15,095)	-	-	-	(1,750)
Payment of interest	11,208	-	-	(10,562)	-	-	-	(646)	-
Accretion of U.S. Treasury bond strips held by Trustee	-	-	-	-	-	1,970	-	-	-
Proceeds from notes and loans payable	1,418	-	-	-	-	-	-	-	-
Payment of notes and loans payable	(1,917)	-	-	-	-	-	-	-	-
Contributions received from the Commonwealth Government and federal agencies	8,244	-	-	-	-	-	-	-	-
BALANCE, JUNE 30, 1996	\$78,817	\$ -	\$47	\$ 4,926	\$10,500	\$36,780	\$ -	\$295	\$ 659

(Continues)

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

STATEMENT OF CHANGES IN CASH AND SINKING FUND PER TRUST INDENTURE

FOR THE YEAR ENDED JUNE 30, 1996

(Dollars in Thousands)

(Continuation)

	State Street Trust Indenture Sinking Fund				BPPR Trust Indenture Sinking Fund				
	General Fund	Revenue Fund	Redemption Account	Interest	Principal	Reserve Account	Revenue Fund	Interest	Principal
<u>Total</u>	\$25,610	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents and available for operations	16,427	-	47	4,926	10,500	-	-	295	659
Cash and certificates of deposit held by the Trustee	36,780	-	-	-	-	36,780	-	-	-
Investment in U.S. Treasury Bond Strips, at accreted cost, held by the Trustee (market value \$34,730)	\$78,817	\$25,610	\$47	\$4,926	\$10,500	\$36,780	\$ -	\$295	\$659
	=====	=====	=====	=====	=====	=====	=====	=====	=====

BALANCE, JUNE 30, 1996, represented by:
Cash and cash equivalents and available
for operations
Cash and certificates of deposit held by
the Trustee
Investment in U.S. Treasury Bond Strips,
at accreted cost, held by the Trustee
(market value \$34,730)

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APPENDIX III
COMMONWEALTH OF PUERTO RICO

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COMMONWEALTH OF PUERTO RICO

Geographic Location and Demography

Puerto Rico, the fourth largest of the Caribbean islands, is located approximately 1,600 miles southeast of New York City. It is approximately 100 miles long and 35 miles wide.

According to the United States Census Bureau, the population of Puerto Rico was approximately 3,522,000 in 1990, compared to 3,196,520 in 1980. According to estimates of the Planning Board, the population of Puerto Rico increased to 3,726,000 in fiscal 1996. As of 1990, the population of San Juan, the island's capital and largest city, was approximately 437,000.

Relationship with the United States

Puerto Rico was discovered by Columbus in 1493 and shortly thereafter the island was conquered and settled by the Spaniards. It remained a Spanish possession for four centuries.

Puerto Rico came under United States sovereignty pursuant to the Treaty of Paris, signed on December 10, 1898, which ended the Spanish-American War. Puerto Ricans became citizens of the United States in 1917, with the approval of the Jones Act by the United States Congress. In 1950, after a long evolution toward greater self-government, Congress enacted Public Law 600 which provided that the existing political, economic, and fiscal relationship between Puerto Rico and the United States would remain the same, but Puerto Rico would be authorized to draft and approve its own Constitution, guaranteeing a republican form of government. The Constitution was drafted by a popularly elected constitutional convention, approved in a special referendum by the people of Puerto Rico, amended and ratified by the United States Congress, and subsequently approved by the President of the United States. Puerto Rico's constitutional status is that of a territory of the United States, and pursuant to the territorial clause of the Federal Constitution, the ultimate source of power over Puerto Rico is the United States Congress. The relationship between the United States and Puerto Rico is referred to herein as commonwealth status.

Puerto Rico exercises virtually the same control over its internal affairs as do the fifty states; however, it differs from the states in its relationship with the federal government. The people of Puerto Rico are citizens of the United States but do not vote in national elections. They are represented in Congress by a Resident Commissioner who has a voice in the House of Representatives and limited voting power. Most federal taxes, except those such as Social Security taxes, are not levied in Puerto Rico. No federal income tax is collected from Puerto Rico residents on income earned in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. Income earned by Puerto Rico residents from sources outside of Puerto Rico, however, is subject to federal income tax. Federal excise taxes on shipments of alcoholic beverages from Puerto Rico (which are at \$11.30 per gallon through October 1, 1998, and thereafter at \$10.50 per gallon) and other taxes on shipments of tobacco products from Puerto Rico to the mainland are returned to the Treasury of Puerto Rico.

The official languages of Puerto Rico are Spanish and English. Although the culture of Puerto Rico is mostly Hispanic, a considerable intermingling of Hispanic and United States cultures has occurred.

On February 26, 1997 legislation was introduced in the U.S. House of Representatives (the "Political Status Act") proposing a mechanism to settle permanently the political relationship between Puerto Rico and the United States, either through full self-government (e.g., statehood or independence, including, as an alternative, free association via a bilateral treaty) or continued commonwealth status. Under the proposed legislation, failure to settle on full self-government after completion of the referenda process provided therein would result in retention of the current commonwealth status. On March 19, 1997, similar legislation was introduced in the U.S. Senate. The House Resources Committee held hearings and voted in favor of the Political Status Act. The Political Status Act must be voted on by the House Rules Committee before reaching the House floor. It is not possible at this time to predict when the Political Status Act will be voted on

by the full House of Representatives, what course the legislation will follow in the Senate, and whether it will be subsequently enacted into law.

Governmental Structure

The Constitution of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”) provides for the separation of powers of the executive, legislative, and judicial branches of government. The Governor is elected every four years. The Legislature consists of a Senate and a House of Representatives, the members of which are elected for four-year terms. The highest court within the local jurisdiction is the Supreme Court of Puerto Rico. Decisions of the Supreme Court of Puerto Rico may be appealed to the Supreme Court of the United States under the same terms and conditions as decisions from state courts. Puerto Rico constitutes a District in the Federal Judiciary and has its own United States District Court. Decisions of this court may be appealed to the United States Court of Appeals for the First Circuit and from there to the Supreme Court of the United States.

Governmental responsibilities assumed by the central government of Puerto Rico are similar in nature to those of the various state governments. In addition, the central government assumes responsibility for local police and fire protection, education, public health and welfare programs, and economic development.

Pedro Rosselló was sworn in as Governor of Puerto Rico on January 2, 1993. He was re-elected for a second four year term in the November 1996 elections and sworn in again as Governor of Puerto Rico on January 2, 1997. He obtained a medical degree from Yale University in 1970, after completing his undergraduate studies at Notre Dame University in 1966. He specialized in General and Pediatric Surgery at Harvard University. In 1985, he was appointed Director of San Juan’s Health Department, a position which he held for three years. As a member of the New Progressive Party, he was the party’s candidate for Resident Commissioner to the United States Congress in 1988. In 1991, he was elected President of the New Progressive Party.

Juan A. Alvarado Zayas became Acting Secretary of the Treasury on October 1, 1997. Prior to that time he had been Assistant Secretary of the Treasury for Administrative Appeals, having been appointed on January 1993, and Deputy Secretary of the Treasury, having been appointed on January 1, 1997. He is an attorney and a certified public accountant. He is a graduate of Interamerican University, where he obtained a masters degree in Business Administration, and of the University of Puerto Rico, where he obtained a Juris Doctor degree. Prior to joining the Department of the Treasury, he worked for six years with an accounting firm.

Jorge E. Aponte Hernández, Director of the Office of Management and Budget, took office in January 1993. In November 1996, he was re-appointed by the Governor to continue in his position. He is a certified public accountant and a graduate of the University of Puerto Rico, where he obtained a bachelor’s degree in Business Administration and Accounting. Prior to his appointment, he worked for twenty years as an accountant and auditor for various accounting firms.

Marcos Rodríguez-Ema, President of Government Development Bank for Puerto Rico (“Government Development Bank” or “GDB”), took office in January 1993. In November 1996, he was re-appointed by the Governor to continue in his position. He is a lawyer and a graduate of Georgetown University, where he obtained a Juris Doctor degree after completing his bachelor of science degree in foreign service. Prior to his appointment, he worked for five years as a lawyer in a San Juan law firm and for six years as an investment banker for two major securities firms.

Political Trends

For many years there have been two major views in Puerto Rico with respect to the island’s relationship with the United States: one favoring statehood, represented by the New Progressive Party, and the other favoring the existing commonwealth status, represented by the Popular Democratic Party. The following table shows the percentages of the total vote received by the gubernatorial candidates of the various parties in the last five elections by voter preference with respect to statehood, commonwealth status, and independence. While the electoral choices of Puerto Rico’s voters are not based solely on preferences regarding the island’s relationship with the United States, candidates who support a continuing relationship between Puerto Rico and the United States have prevailed in elections for many years.

	<u>1980</u>	<u>1984</u>	<u>1988</u>	<u>1992</u>	<u>1996</u>
New Progressive Party	47.3%	45.5%	45.8%	49.9%	51.1%
Popular Democratic Party	47.0	48.5	48.7	45.9	44.5
Puerto Rico Independence Party	5.4	3.9	5.4	4.2	3.8
Others	0.3	2.1	0.1	--	0.6

With the results of the 1996 election, control of the executive and legislative branches will continue under the New Progressive Party. The composition of the Senate and House by the several political parties is as follows:

	<u>Senate</u>	<u>House</u>
New Progressive Party	19	37
Popular Democratic Party	8	16
Puerto Rico Independence Party	<u>1</u>	<u>1</u>
	28	54

The next general election (gubernatorial, municipal, and legislative) in Puerto Rico will be held in November 2000. Voter participation in Puerto Rico is substantially higher than in the United States, averaging 85% since 1972.

THE ECONOMY

General

The Government of Puerto Rico has established policies and programs directed at developing the manufacturing and service sectors (with emphasis on the tourism industry) of the economy and expanding and modernizing the island's infrastructure. Domestic and foreign investment has been stimulated by selective tax exemption, development loans, and other financial and tax incentives. Infrastructure expansion and modernization have been to a large extent financed by bonds and notes issued by the Commonwealth, its public corporations and municipalities. Economic progress has been aided by significant increases in the levels of education and occupational skills of the island's population.

The economy of Puerto Rico is fully integrated with that of the United States mainland. During fiscal 1996, approximately 88% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 62% of Puerto Rico's imports. In fiscal 1996, Puerto Rico experienced a \$3.2 billion positive adjusted merchandise trade balance.

The dominant sectors of the Puerto Rico economy are manufacturing and services. The manufacturing sector has experienced a basic change over the years as a result of increased emphasis on higher wage, high technology industries, such as pharmaceuticals, electronics, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The services sector, including finance, insurance, real estate, wholesale and retail trade, and hotel and related services, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment. In recent years, the services sector has experienced significant growth in response to the expansion of the manufacturing sector.

Fiscal 1992 to 1996

Puerto Rico's more than decade-long economic expansion continued throughout the five-year period from fiscal 1992 through fiscal 1996. Almost every sector of the economy participated and record levels of employment were achieved. Factors behind this expansion included government-sponsored economic development programs, periodic declines in the exchange value of the United States dollar, increases in the level of federal transfers, and the relatively low cost of borrowing.

Gross product in fiscal 1992 was \$23.7 billion and gross product in fiscal 1996 was \$30.2 billion (\$26.7 billion in 1992 prices). This represents an increase in gross product of 27.7% from fiscal 1992 to 1996 (12.9% in 1992 prices).

Since fiscal 1985, personal income, both aggregate and per capita, has increased consistently each fiscal year. In fiscal 1996, aggregate personal income was \$29.4 billion (\$27.8 billion in 1992 prices) and personal income per capita was \$7,882 (\$7,459 in 1992 prices).

Personal income includes transfer payments to individuals in Puerto Rico under various social programs. Total federal payments to Puerto Rico, which include transfers to local government entities and expenditures of federal agencies in Puerto Rico, in addition to federal transfer payments to individuals, are lower on a per capita basis in Puerto Rico than in any state. Transfer payments to individuals in fiscal 1996 were \$6.6 billion, of which \$4.8 billion, or 72.2%, represented entitlements to individuals who had previously performed services or made contributions under programs such as Social Security, Veterans' Benefits, Medicare and U.S. Civil Service retirement pensions.

Average employment increased from 999,000 in fiscal 1993, to 1,128,300 in fiscal 1997. Average unemployment decreased from 16.8% in fiscal 1993, to 13.1% in fiscal 1997.

The following table shows the gross product for the five fiscal years ended June 30, 1996.

	Fiscal Year Ended June 30,				
	1992	1993	1994	1995	1996(p)
Gross product — \$ millions	\$23,696	\$25,133	\$26,641	\$28,413	\$30,254
Real gross product — \$ millions (1992 prices)	23,696	24,483	25,103	25,945	26,742
Annual percentage increase in real gross product (1992 prices)	0.8%	3.3%	2.5%	3.4%	3.1%
U.S. annual percentage increase in real gross product (1992 prices)(1)	0.8%	2.8%	2.6%	2.9%	1.9%

(p) Preliminary.

(1) Restated to correspond to Puerto Rico's fiscal year ending June 30.

Sources: Planning Board and Data Resources Inc.

Since the 1950's the Planning Board has prepared a complete set of macroeconomic measures like those prepared for the United States by the Bureau of Economic Analysis ("BEA") of the Department of Commerce. In contrast with the BEA, which computes the economic accounts on a quarterly basis, the Planning Board computes the economic accounts on an annual basis. Like the BEA, the Planning Board revises the macroeconomic numbers on a regular basis. The Planning Board has always classified the latest annual numbers as preliminary until they are revised in conjunction with the release of the new data each year. At present, all macroeconomic accounts for fiscal 1996 are preliminary until the revised figures are released. The release of the 1997 data is expected to occur within the next few months.

Fiscal 1996 and Fiscal 1997

According to the Labor Department's Household Employment Survey, during fiscal 1997, total employment increased 3.3% over fiscal 1996. Total employment averaged 1,128,300 in fiscal 1997, compared to 1,092,300 in fiscal 1996. The seasonally adjusted unemployment rate for September 1997 was 13.1%.

The Planning Board's gross product forecast for fiscal 1997, made in February 1997, projected an increase of 2.8% over fiscal 1996. Some private economists in Puerto Rico also projected an increase in gross product for fiscal 1997, ranging from 2.5% to 3.3%.

The Planning Board utilizes a composite index of thirteen economic indicators, known as the Economic Activity Index (the "Index"), as an indicator of short term economic activity. These thirteen indicators consist of: total

employment, manufacturing employment, manufacturing payroll, electric energy consumption, external trade, tourist hotel registrations, retail sales, excise taxes, electric energy production, new housing unit permits, hours worked, cement production, and new motor vehicle registrations.

The Index does not necessarily change at the same percentage rate as the gross product of Puerto Rico. In fact, notwithstanding the expected growth in gross product for fiscal 1997, for fiscal 1997 the Index decreased 0.2% compared to fiscal 1996. One of the factors that may explain this discrepancy between the projections of growth in gross product and the Index is the negative impact of Hurricane Hortense, which struck the island on September 9, 1996 and resulted in many components of the Index dropping sharply in September, particularly in the areas of manufacturing and tourism. The week of the hurricane coincided with the week in which the Department of Labor collects the information for the payroll survey. This survey provides information on three variables that are part of the Index: manufacturing employment, manufacturing payroll, and manufacturing weekly hours worked.

Economic Development Program - New Economic Model

Governor Rosselló's administration has developed and is implementing a new economic development program which is based on the premise that the private sector should provide the primary impetus for economic development and growth. This new program, referred to as the New Economic Model, promotes changing the role of the government from one of a provider of most basic services, to that of a facilitator for private sector initiatives, and encourages private sector investment by reducing government-imposed regulatory constraints.

The New Economic Model contemplates the development of initiatives that will foster private investment in, and private management of, sectors that are served more efficiently and effectively by private enterprise. One of the initiatives that has already been implemented is the adoption of a new tax code intended to expand the tax base, reduce top personal and corporate tax rates and simplify the tax system. Another initiative consists of improving and expanding Puerto Rico's infrastructure to facilitate private sector development and growth, such as the construction of the water pipeline and cogeneration facilities described below and the construction of a light rail system for the San Juan metropolitan area.

The New Economic Model seeks to identify and promote those areas in which Puerto Rico can compete more effectively in the global markets. In this regard, tourism has been targeted as a priority because of its potential for job creation and increased contribution to the gross product stemming from Puerto Rico's natural competitive advantage. As part of the initiatives directed at promoting the tourism sector, in 1993 a new Tourism Incentives Act was enacted providing special tax incentives for the development of new hotel projects. See "Tax Incentives" below. Also, in November 1993, the Tourism Development Fund was created for the purpose of promoting capital investments in and providing financing to entities that contribute to the development of the tourism industry. As a result of these initiatives, several new hotels have been constructed or are in the process of being constructed, increasing the number of total rooms on the island from 8,415 at the end of fiscal 1992 to 10,877 at the end of fiscal 1997 and to a projected 11,972 by the end of fiscal 1998. Similar tax incentives have been enacted in other areas targeted by the New Economic Model as areas of opportunity for the promotion of local and foreign investment in Puerto Rico, such as agriculture, solid waste management and venture capital.

The New Economic Model also seeks to reduce the size of government's direct contribution to gross domestic product. As part of this goal, the Government has transferred certain governmental operations and sold a number of its assets to private parties. On March 3, 1995, the Government completed the sale of the assets of the Maritime Shipping Authority to a private purchaser. On May 26, 1995, the Aqueduct and Sewer Authority executed a five-year agreement pursuant to which the management, operation, repair, and maintenance of the Authority's water and waste water treatment systems is being provided by a private company. On January 31, 1996, the Aqueduct and Sewer Authority executed a construction and operating agreement with a private consortium for the design, construction, and operation of an approximately 75 million gallon per day pipeline to deliver water to the San Juan metropolitan area from Dos Bocas reservoir in Utuado. The Electric Power Authority has entered into power purchase agreements with private power producers under which two cogenerating plants (with a total capacity of approximately 800 megawatts) using fuels other than oil will be constructed, operated and owned by these producers. The Administration of Corrections has entered into operating agreements with two private companies whereby three new correctional facilities are being operated by these companies. In 1995, the Government entered into a definitive agreement to sell to private companies certain assets of the pineapple juice processing business formerly operated by the Land Authority and sold certain government owned mango growing operations. The Government is currently in the process of transferring to local sugar cane growers the

sugar processing facilities operated by the Sugar Corporation. The Government has also sold two hotel properties formerly owned by a subsidiary of the Tourism Company and is currently negotiating the sale of a complex consisting of two hotels and a convention center to a Florida-based corporation. On April 7, 1997, Governor Rosselló announced the Government's intention to sell the Puerto Rico Telephone Company ("PRTC"), a subsidiary of the Telephone Authority. Legislation authorizing the Government to negotiate the sale of PRTC has been approved and the Government is currently conducting the sale process.

One of the goals of the Rosselló administration is to change Puerto Rico's public health care system from one in which the government provides free health services to low income individuals through public health facilities owned and administered by the government to one in which all medical services are provided by the private sector and the government provides comprehensive health insurance coverage for qualifying (generally low income) Puerto Rico residents. Under this new system, the Government selects, through a bidding system, one private health insurance company in each of several designated regions of the island and pays such insurance company the insurance premium for each eligible beneficiary within such region. This new health insurance system is now covering 61 municipalities out of a total of 78 on the island. The total cost of this program will depend on the number of municipalities included in the program, the number of participants receiving coverage, and the date coverage commences. As of June 30, 1997, over 1,090,592 persons were participating in the program at an estimated annual cost to the General Fund of Puerto Rico for fiscal 1997 of approximately \$521 million. In conjunction with this program, the operation of certain public health facilities has been transferred to private entities. The Government's current privatization plan for health facilities provides for the transfer of ownership of all health facilities to private entities. In September 26, 1997 the Government announced that it had selected various private companies with which it was commencing negotiations expected to culminate in the sale of nine health facilities to such companies.

Employment and Unemployment

The number of persons employed in Puerto Rico during fiscal 1997 averaged 1,128,300. Unemployment, although at relatively low historical levels, remains above the average for the United States.

The following table presents annual statistics of employment and unemployment from fiscal 1993 through fiscal 1997 and monthly statistics for July to September 1997.

Puerto Rico Employment and Unemployment

<u>Fiscal Years Ended June 30</u>	<u>Labor Force(1)</u>	<u>Employed(1)</u>	<u>Unemployed(1)</u> (Annual Average)	<u>Unemployment</u> <u>Rate(2)</u>
1993	1,201	999	202	16.8%
1994	1,204	1,011	193	15.9
1995	1,219	1,051	168	13.8
1996	1,268	1,092	175	13.8
1997	1,298	1,128	170	13.1
<u>Fiscal 1998</u>		<u>(Seasonally Adjusted)</u>		
July	1,309	1,125	184	14.1%
August	1,314	1,141	173	13.2
September	1,337	1,162	175	13.1

- (1) Thousands of persons age 16 years and over. Totals may not add due to rounding.
 (2) Unemployed as percentage of labor force.

Source: Department of Labor and Human Resources — Household Survey.

Economic Performance by Sector

Puerto Rico has a diversified economy. During fiscal years 1992-1996, the manufacturing and services sectors generated the largest portion of gross domestic product. Three sectors of the economy provide the most employment: manufacturing, services and government.

The following table presents annual statistics of gross domestic product by sector and gross product for the five fiscal years ended June 30, 1996.

Puerto Rico

**Gross Domestic Product by Sector and Gross Product
(in millions at current prices)**

	Fiscal Year Ended June 30				
	1992	1993	1994	1995	1996(p)
Manufacturing	\$14,183	\$15,428	\$16,748	\$17,863	\$18,861
Services(1)	13,168	14,109	15,214	16,248	17,093
Government(2)	3,672	3,881	3,987	4,440	4,871
Transportation, communication and public utilities	2,828	3,009	3,134	3,284	3,487
Agriculture, forestry and fisheries	420	411	369	317	307
Construction (3)	798	874	928	955	1,003
Statistical discrepancy	(439)	(789)	(689)	(501)	(117)
Total gross domestic product(4)	<u>34,630</u>	<u>36,923</u>	<u>39,691</u>	<u>42,607</u>	<u>45,505</u>
Less: net payment abroad	<u>10,934</u>	<u>11,790</u>	<u>13,050</u>	<u>14,194</u>	<u>15,251</u>
Total gross product(4)	<u>\$23,696</u>	<u>\$25,133</u>	<u>\$26,641</u>	<u>\$28,413</u>	<u>\$30,254</u>

(p) Preliminary.

(1) Includes wholesale and retail trade, finance, insurance and real estate, hotel and related services, and other services.

(2) Includes the Government of Puerto Rico, its municipalities and the federal government; excludes public corporations.

(3) Includes mining.

(4) Totals may not add due to rounding.

Source: Planning Board

The following table presents annual statistics of average employment by sector for the five fiscal years ended June 30, 1997.

Puerto Rico

**Average Employment by Sector
(thousands of persons age 16 and over)**

	Fiscal Year ended June 30				
	1993	1994	1995	1996	1997
Manufacturing	168	166	172	167	162
Services(1)	467	478	496	527	551
Government(2)	217	224	232	246	261
Transportation, communication and public utilities	54	55	60	61	59
Construction(3)	59	54	57	59	65
Agriculture, forestry and fisheries	<u>34</u>	<u>34</u>	<u>34</u>	<u>32</u>	<u>31</u>
Total(4)	<u>999</u>	<u>1,011</u>	<u>1,051</u>	<u>1,092</u>	<u>1,128</u>

(1) Includes wholesale and retail trade, finance, insurance, real estate, hotels and related services and other services.

(2) Includes the Government of Puerto Rico, its municipalities and federal government; excludes public corporations.

(3) Includes mining.

(4) Totals may not add due to rounding.

Source: Department of Labor and Human Resources — Household Survey.

Manufacturing

Manufacturing is the largest sector in the economy of Puerto Rico, in terms of gross domestic product. The Planning Board estimates that in fiscal 1996 manufacturing generated \$18.9 billion, or 41.4% of gross domestic product. The manufacturing sector employed 152,489 workers as of March 1997 (as reported in the Department of Labor and Human Resources — Monthly Survey on Employment Hours and Earnings). Most of the island's manufacturing output is shipped to the United States mainland, which is also the principal source of semifinished manufactured articles on which further manufacturing operations are performed in Puerto Rico. The United States minimum wage laws are applicable in Puerto Rico. As of March 1997 the average hourly manufacturing wage rate in Puerto Rico was 61% of the average mainland United States rate.

Manufacturing in Puerto Rico is now more diversified than during the earlier phases of the industrial development program. In the last two decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by the heavy investment in pharmaceuticals, scientific instruments, computers, microprocessors, medical products, and electrical products industries over the last decade.

The following table sets forth gross domestic product by manufacturing sector for the five fiscal years ended June 30, 1996.

Puerto Rico
Gross Domestic Product by Manufacturing Sector
(in millions at current prices)

	Fiscal Year Ended June 30				
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996(p)</u>
Pharmaceuticals	\$6,460	\$7,249	\$8,229	\$8,905	\$9,214
Machinery and metal products	2,935	3,226	3,310	3,449	4,046
Food products	2,413	2,456	2,694	2,742	2,775
Apparel	536	548	504	603	607
Other(1)	1,840	1,949	2,010	2,164	2,219
Total gross domestic product of manufacturing sector(2)	<u>\$14,183</u>	<u>\$15,428</u>	<u>\$16,748</u>	<u>\$17,863</u>	<u>\$18,861</u>

(p) Preliminary.

(1) Includes petroleum products; petrochemicals and other chemical products; tobacco products; stone, clay and glass products; textiles and others.

(2) Totals may not add due to rounding.

Source: Planning Board.

The following table sets forth manufacturing employment by industry group as of March for the last five years.

Puerto Rico

**Manufacturing Employment by Industry Group
(persons age 16 years and over)**

<u>Industry Group</u>	<u>As of March 31,</u>				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Apparel and related products	29,018	25,213	26,034	23,918	22,592
Food and related products	20,608	20,471	20,882	20,343	20,021
Electrical machinery, equipment and supplies	17,721	19,676	22,928	23,464	23,798
Chemicals and related products (includes pharmaceuticals)	26,141	27,174	28,104	28,047	26,855
Professional and scientific instruments	16,437	15,495	14,390	15,131	14,943
Machinery, except electrical equipment	4,241	4,262	2,612	3,824	4,083
Petroleum refining and related industries; rubber and miscellaneous plastic products	5,294	5,593	4,983	5,268	5,470
Leather and leather products	7,196	7,260	7,282	6,636	6,397
Paper and related products; printing, publishing and related industries	5,944	6,118	6,628	7,184	7,258
Metal products	4,632	4,648	4,740	5,157	5,674
Stone, clay and glass products	4,465	4,716	4,708	4,825	4,907
Lumber and wood products; furniture and fixtures	2,882	2,927	2,894	3,183	3,323
Textile mill products	3,876	3,503	3,403	3,841	3,641
Tobacco products	850	763	953	989	1,190
Miscellaneous manufacturing industries	<u>2,223</u>	<u>2,443</u>	<u>3,069</u>	<u>2,134</u>	<u>2,337</u>
Total	<u>151,528</u>	<u>150,262</u>	<u>153,610</u>	<u>153,944</u>	<u>152,489</u>

Sources: Department of Labor and Human Resources — Census of Manufacturing, except for the March 1995 to 1997 which were derived from the “Monthly Survey on Employment, Hours and Earnings.”

Leading United States and Foreign Companies with Manufacturing Operations in Puerto Rico

Employment 2,500 and over

	Product
American Home Products	Pharmaceuticals
Baxter International	Pharmaceuticals
Eaton Corp.	Electronic Instruments
General Electric Co.	Electrical Instruments
H. J. Heinz Co.	Food
Intel	Computers
Johnson and Johnson	Pharmaceuticals
Sara Lee Corp.	Apparel

Employment 1,500 to 2,499

Abbott Laboratories, Inc.	Pharmaceuticals
Bristol-Myers Squibb	Pharmaceuticals
Motorola, Inc.	Electronic Components
Warner-Lambert Co.	Pharmaceuticals

Employment 1,000 to 1,499

Dexter Shoe	Footwear
Eli Lilly and Co.	Pharmaceuticals
Hampshire Designers Group	Textiles
Hewlett-Packard	Computers
Hubbell Incorporated	Electrical Instruments
Ingersoll-Rand Co.	Electrical Instruments
Merck & Co.	Chemicals
P.L. Industries, Inc.	Apparel
Pfizer	Pharmaceuticals
Propper International	Apparel
Schering-Plough Corp.	Pharmaceuticals
Sensormatic Electronics	Electronic Instruments
U.S. Surgical	Scientific Instruments
Unicord Co. LTD	Food

Employment 500 to 999

Allergan	Pharmaceuticals
Angles Dairy Management	Dairy Products
Aramark	Apparel
Atlantron, Inc.	Communications
Avon Products Inc.	Costume Jewelry
Becton-Dickinson & Co.	Scientific Instruments
Checkpoint Systems, Inc.	Electronic
Coachman Inc.	Apparel
Coleman Co.	Luggage
Conagra	Food
DSC Communication Corp.	Communication Equipments
Dooney & Bourke	Leather
DuPont (E.I.) de Nemours	Chemicals
General Instruments Corp.	Communications
H.H. Brown Shoes Co., Inc.	Footwear
Ivax Corporation	Medical Equipment
MacAndrews & Forbes Holdings ..	Tobacco Products
Maidenform	Apparel
Medtronic	Surgical and Medical Instruments

Monsanto	Pharmaceuticals
Nycomed ASA	Pharmaceuticals
Owens Illinois	Glass and Plastics
Penn-State Coats & Aprons	Apparel
Phillips Van-Heusen	Apparel and Footwear
R.J.R. Nabisco	Food and Cigarettes
Seaboard Fluor Corp.	Food
SmithKline Beecham	Pharmaceuticals
Storage Technology	Electronics
Thomas & Betts	Electrical Instruments
Timberland Company (The)	Leather
Up-John Co.	Pharmaceuticals

Employment 300 to 499

Block Drug Co.	Consumers Products
Carnival Creations	Apparel
Carolina Underwear Co.	Apparel
Centennial	Communications
Coca-Cola Company (The)	Food
Colgate-Palmolive Co.	Consumers Products
Collin & Aikman Group, Inc.	Stockings
Eagle Work Clothes	Apparel
Eastern Canvas Products	Leather
Echlin Mfg.	Motor Vehicles Parts
Emerson Electric	Electronic and Scientific Instruments
Garment Corp. of America	Apparel
Goya Foods	Food
Granada Sales	Apparel
Isla Verde Investment	Apparel
Insilco Corporation	Office Equipment
Lawson Mardon Wheaton	Glass and Plastics
Loctite Corp.	Chemicals
Millipore Corp.	Scientific Instruments
Nestle S.A.	Pharmaceuticals
Nypro	Medical Devices
Ocular Science-American Hydron	Ophthalmic Products
Packaging Coordinators Inc.	Packaging Products
Pall Corp.	Filters
Phillips Petroleum Co.	Petroleum Products
Procter & Gamble Co.	Pharmaceuticals
R.E. Phelon & Co.	Electronics
Randa Corporation	Textiles
Siecor Corp.	Optic Fibers
Siemens AG	Electrical Instruments
Standard Motor Products	Motor Vehicles Parts
Stryker Corp.	Surgical and Medical Instruments
Sundstrand Corp.	Electrical Instruments
Syntex Corp.	Pharmaceuticals
Unifirst Corp.	Work Garment
Unilever PLC	Consumers & Medicals
Wesley Jessen Corp.	Ophthalmic Products
Wolverine World Wide	Footwear
Zeneca Group PLC	Pharmaceuticals

Source: Economic Development Administration, Office of Economic Research (as of September 1997).

Services

Puerto Rico has experienced significant growth in the services sector in terms of both income and employment over the past decade, showing a favorable trend as compared with certain other industrialized economies. During the period between fiscal 1992 and 1996, the gross domestic product in the services sector increased at an annual average rate of 6.7%. Employment in this sector (including finance, insurance, real estate, wholesale and retail trade, hotels and related services and other services) increased at an annual average rate of 4.1% during the same period. The development of the services sector in the local economy has shown a strong interaction among the following important sectors: manufacturing, tourism, construction, and agriculture. The services sector in Puerto Rico has a diversified base.

The high degree of knowledge, skills, and expertise in professional and technical services available in Puerto Rico places the island in a favorable competitive position with respect to Latin America and other trading countries throughout the world. A major element in the economic program of the present administration is the further development of the local services sector which has the capacity to increase its export potential and to generate more income and jobs during the coming years.

The services sector ranks second to manufacturing in its contribution to gross domestic product, and it is the sector with the greatest employment. In fiscal 1996, services generated \$17.1 billion of gross domestic product, or 37.6% of the total. Service employment grew from 449,000 in fiscal 1992 to 527,000 in fiscal 1996, a cumulative increase of 17.4%, which increase was greater than the 11.9% cumulative growth in total employment over the same period. Wholesale and retail trade and finance, insurance and real estate have experienced significant growth in the fiscal 1992 to 1996 period, as measured by gross domestic product. Gross domestic product in the wholesale and retail trade increased from \$5.0 billion in fiscal 1992 to \$6.2 billion in fiscal 1996. In finance, insurance and real estate, gross domestic product increased from \$4.6 billion in fiscal 1992 to \$5.9 billion in fiscal 1996. There are 20 commercial banks and trust companies currently operating in Puerto Rico of which two are U.S. major money center banks, four are foreign banks and fifteen are local banks and trust companies. Total assets of these institutions as of June 30, 1997 were \$34.7 billion. In addition, two federal thrift institutions and six major securities firms operate on the island.

The following tables set forth gross domestic product for the five fiscal years ended June 30, 1996 and services sector employment for the five fiscal years ended June 30, 1997.

Puerto Rico
Gross Domestic Product by Services Sector
(in millions at current prices)

	Fiscal Year Ended June 30				
	1992	1993	1994	1995	1996(p)
Wholesale and retail trade	\$4,990	\$5,303	\$5,635	\$5,959	\$6,224
Finance, insurance and real estate	4,596	4,897	5,246	5,596	5,878
Hotels	351	373	432	475	502
Other services	3,231	3,536	3,901	4,218	4,489
Total(1)	<u>\$13,168</u>	<u>\$14,109</u>	<u>\$15,214</u>	<u>\$16,248</u>	<u>\$17,093</u>

(p) Preliminary.

(1) Totals may not add due to rounding.

Source: Planning Board.

Puerto Rico

**Average Employment by Services Sector
(thousands of persons age 16 and over)**

	Fiscal Year Ended June 30				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Wholesale and retail trade	201	201	211	218	228
Finance, insurance and real estate	32	33	36	39	37
Other services(1)	<u>234</u>	<u>244</u>	<u>249</u>	<u>270</u>	<u>285</u>
Total(2)	<u>467</u>	<u>478</u>	<u>496</u>	<u>527</u>	<u>551</u>

- (1) Includes hotels and related services.
(2) Totals may not add due to rounding.

Source: Department of Labor and Human Resources — Household Survey.

Hotels and Related Services - Tourism

Total visitors' expenditures accounted for 6.3% of the island's gross product in fiscal 1996. Visitors' expenditures and the number of visitors to the island have grown consistently since 1985, reaching \$1.9 billion, and more than 4.1 million, respectively, in fiscal 1996. During fiscal 1997, the number of persons which registered in tourist hotels was 1,260,620, a 4.2% increase compared with fiscal 1996. The average occupancy rate in tourist hotels was 73.2% in fiscal 1997. The average number of rooms rented in tourist hotels increased 6.2% in fiscal 1997, compared with fiscal 1996. These increases are due in part to the increased marketing by the Government of Puerto Rico, the trends in the U.S. economy and increased hotel usage by Puerto Rico residents. Since fiscal 1992, a number of major hotels have undergone substantial renovation and more than 2,631 new rooms have been added with the opening of several major hotels. Various international hotel corporations have recently made substantial capital investments to develop additional tourist facilities. At June 30, 1997, the number of total rooms was 10,877 and is expected to increase to 11,972 during fiscal 1998 with the completion of several new hotels. A major reason for this increase in rooms has been the initiatives of the New Economic Model that encourage private development in tourism projects. See "Economic Development Program—New Economic Model" above and "Tax Incentives" below.

San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port for cruise ships in the world.

The following table presents data relating to visitors to Puerto Rico and tourist expenditures for the five fiscal years ended June 30, 1996.

Puerto Rico
Tourism Data

<u>Fiscal Year Ended June 30</u>	<u>Number of Visitors</u>				<u>Total Visitors' Expenditures (in millions)</u>
	<u>Tourist Hotel(1)</u>	<u>Cruise Ship</u>	<u>Other(2)</u>	<u>Total</u>	
1992	653,545	1,063,370	2,003,083	3,719,998	\$1,519.7
1993	688,509	1,014,490	2,165,959	3,868,958	1,628.1
1994	702,310	980,220	2,340,065	4,022,595	1,728.3
1995	774,000	955,900	2,356,600	4,086,500	1,827.1
1996(p)	828,300	1,045,100	2,336,800	4,110,200	1,898.3

(p) Preliminary.

(1) Includes visitors in guest houses.

(2) Including visitors in homes of relatives, friends, and in hotel apartments.

Sources: Puerto Rico Tourism Company and the Planning Board.

Government

The government sector of Puerto Rico plays an important role in the economy. In fiscal 1996, government accounted for \$4.9 billion of Puerto Rico's gross domestic product, or 10.7% of the total. The government is also a significant employer, providing jobs for 246,000 workers, or 22.5% of total employment in fiscal 1996. The government sector employment does not include data relating to public corporations which are included in other sectors. These public corporations include significant employers such as the Electric Power Authority, the Telephone Authority, and the Aqueduct and Sewer Authority.

In May 1997, Governor Rosselló created a commission to study a proposal to permit the unionization of government employees. The commission adopted a resolution on October 14, 1997 proposing that legislation be enacted permitting the unionization of government employees.

Transportation

Thirty-four shipping lines offer regular ocean freight service to eighty United States and foreign ports. San Juan is the island's leading seaport, but there are also seaport facilities at other locations on the island including Arcibo, Culebra, Fajardo, Guayama, Guayanilla, Mayagüez, Ponce, Vieques, and Yabucoa.

The Luis Muñoz Marín International Airport is currently served by 24 United States and international airlines. At present, there is daily direct service between San Juan and New York, Chicago, Dallas, Los Angeles, Miami, Atlanta, Boston, and numerous other destinations within the United States. There is also regularly scheduled service between Puerto Rico and other Caribbean islands and major Latin American and European cities. a major United States airline uses San Juan as a hub for its intra-Caribbean service. Several smaller airports serve intra-island traffic.

The island's major cities are connected by a modern highway system which, as of December 31, 1996, totaled approximately 4,600 miles.

Construction

The construction industry has experienced substantial real growth since fiscal 1987. In fiscal 1997, investment in construction rose to an unprecedented level of \$4.7 billion, a nominal increase of 14.7%, as compared to \$4.1 billion for fiscal 1996. The strong growth in the construction industry resulted from increased public and private investment in the past few years. Nominal public investment in key infrastructure projects increased 19.4% in fiscal 1997 and 33.0% in fiscal 1996. Private construction investment, particularly in housing and hotels, increased 8.8% in fiscal 1997 and 17.9% in fiscal 1996. During fiscal 1997, the total value of construction permits increased 19.0% and local cement consumption increased 7.2% in comparison with fiscal 1996. The Planning Board's construction investment forecast for fiscal 1998, made in July 1997, projected a nominal increase of 21.1%. In fiscal 1997, the average employment in the construction sector was 64,401, an increase of 9.4% over fiscal 1996.

Agriculture

The Department of Agriculture and related agencies have directed their efforts at increasing and improving local agricultural production, increasing efficiency and quality of produce, and stimulating import substitution where economically feasible. During fiscal 1996, gross income from agriculture was \$662.6 million, a decrease of \$24.5 million in comparison with fiscal 1995. Agriculture gross income consists of the total value of production in the principal agricultural sectors, which include traditional crops, cattle products, farinaceous, vegetables, fruits, and other products. Recently, cattle products, non-traditional crops, and livestock products have contributed a higher percentage of the sector's income.

The Government of Puerto Rico supports agricultural activities through incentives, subsidies, and technical and support services, in addition to income tax exemptions for qualified income derived by bona fide farmers. Act No. 225, approved on December 1, 1995, increased the tax benefits available to bona fide farmers. The Act provides a 90% income tax exemption for income derived from agricultural operations, an investment tax credit equal to 50% of the investment in qualified agricultural projects, and a 100% exemption from excise taxes, real and personal property taxes, municipal license taxes and tariff payments. It also provides full income tax exemption for interest income from bonds, notes and other debt instruments to be issued by financial institutions to provide financing to agricultural businesses. Recent legislation imposes an aggregate annual limitation of \$15 million on the investment tax credits available under Act No. 225.

As part of the programs embodied in the New Economic Model, the Government of Puerto Rico has sold or has entered into a definitive agreement to sell to private entities various agricultural operations previously conducted by governmental entities. These include certain assets of the pineapple processing operation and a mango growing facility. Currently, the Government is in the process of transferring the sugar processing facilities of the Sugar Corporation to local private sugar cane growers.

Higher Education

During the past four decades, Puerto Rico has made significant advances in the field of education, particularly at the college and graduate school level. The transformation of Puerto Rico during the 1950's and 1960's from an agricultural economy to an industrial economy brought about an increased demand for educational services at all levels. During the 1970's and 1980's, certain higher wage, higher technology industries became more prominent in Puerto Rico. More recently, employment in the services sector has increased significantly. This has resulted in an increased demand for workers having a higher level of education, in general, and, in particular, greater expertise in various technical fields. During the same time period, enrollments in institutions of higher learning rose very rapidly due to growth in the college-age population, and the increasing proportion of college attendance by such population.

The University of Puerto Rico, the only public university in Puerto Rico, includes eleven campuses located throughout the island. Total enrollment of the University was 68,020 students during academic year 1997-1998. The government of Puerto Rico is legally bound to appropriate annually to the University an amount equal to 9.60% of the average annual revenue from internal sources for each of the two fiscal years immediately preceding the current fiscal year.

The following table presents comparative trend data for Puerto Rico and the United States with respect to college age population and percentage of such population attending institutions of higher learning.

Trend in College Enrollment

<u>Academic Year</u>	<u>Puerto Rico</u>			<u>Mainland United States</u>		
	<u>Population 18-24 Years of Age</u>	<u>Higher Education Enrollment</u>	<u>Percent(1)</u>	<u>Population 18-24 Years of Age</u>	<u>Higher Education Enrollment</u>	<u>Percent(1)</u>
1970	341,448	57,340	16.8%	23,714,000	8,580,887	36.2%
1980	397,839	130,105	32.7	30,022,000	12,096,895	40.3
1990	417,636	156,147	37.4	26,950,000	13,820,000	51.3
1994	444,252	161,689	36.4	25,289,000	14,279,000	56.5
1995	453,476	167,172	36.9	24,932,000	14,209,000	57.0
1996	454,055	171,548	37.8	24,616,000	14,399,000	58.5

(1) Number of persons of all ages enrolled in institutions of higher education as percent of population 18-24 years of age.

Sources: Planning Board, U.S. Bureau of the Census, U.S. National Center for Education Statistics and Council on Higher Education of Puerto Rico.

In addition to the University of Puerto Rico, there are 37 private institutions of higher education located in Puerto Rico. Such institutions have current enrollment in excess of 109,180 students and provide programs of study in liberal arts, education, business, natural sciences, technology, secretarial and computer sciences, nursing, medicine, and law. Degrees are offered by these institutions at the associate, bachelor, master, and doctoral levels.

Tax Incentives

One of the factors assisting the development of the manufacturing sector in Puerto Rico has been the various local and federal tax incentives available, particularly those under Puerto Rico's Industrial Incentives Program and Sections 30A and 936 of the Internal Revenue Code of 1986, as amended (the "Code"). New tax and other incentives have been established to promote the development of the tourism industry. These incentives are summarized below.

Industrial Incentives Program

Since 1948, Puerto Rico has had various industrial incentives laws designed to stimulate industrial investment in the island. Under these laws, companies engaged in manufacturing and certain other designated activities were eligible to receive full or partial exemption from income, property, and other local taxes. The most recent of these industrial incentives laws is Act No. 8 of January 24, 1987, known as the Puerto Rico Tax Incentives Act (the "1987 Act"). The activities eligible for exemption under the 1987 Act include manufacturing, certain designated services performed for markets outside Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico, and laboratories for scientific and industrial research.

The 1987 Act provides a fixed 90% exemption from income and property taxes, and a 60% exemption from municipal license taxes during a 10, 15, 20 or 25 year period, depending on the region where the operations are located. This initial exemption period may be extended for an additional 10 years at lower exemption rates. The 1987 Act also provides for a special deduction equal to 15% of the production payroll for companies whose net income from operations is less than \$30,000 per production job. This special benefit is designed to attract and maintain labor intensive operations in Puerto Rico. The income from certain qualified investments in Puerto Rico ("passive income") and the instruments evidencing such investments are fully exempt from income, property and other local taxes. In addition, companies making qualifying investments for fixed periods of not less than five years are eligible to reduce the withholding tax (also known as the "tollgate tax") imposed on dividend and liquidating distributions from a maximum rate of 10% to a minimum rate of 5%, depending on the amount and term of their qualifying investments.

The 1987 Act imposes a special surtax based on sales volume, designed to raise revenues to fund a special government program of scientific and technical research for the development of new products and industrial processes, and the creation of special training programs for the chronically unemployed.

In 1993, the 1987 Act was amended to require the prepayment of a portion of the tollgate tax payable on dividend and liquidating distributions and to impose a minimum tollgate tax of 5% (previously the tollgate tax could be reduced to zero) on dividend and liquidating distributions. The amount of tollgate tax required to be prepaid is 5% of the company's annual income after the payment of income taxes. As a result of these amendments, the Department of the Treasury has increased its annual collections of tollgate taxes and is now able to predict with greater accuracy the annual tollgate tax revenues expected to be generated. The 1993 amendments also contained an option for companies to pay an upfront flat tax of 14% on annual net income, which would allow companies electing this option to repatriate their profits free of tollgate taxes. Under this option, if a company were to invest 25% or 50% of its profits in qualified investments, the 14% rate would drop to 11% or 9%, respectively.

Under the 1987 Act, as amended, applications for grants of tax exemption could be filed until December 31, 1996. On September 12, 1996 the Governor of Puerto Rico signed into law Act No. 212 which postponed the deadline for filing applications until December 31, 1997.

On August 25, 1997 a bill providing for a new industrial incentives law was introduced in the Puerto Rico Legislature (the "1998 Tax Incentives Bill"). This bill, which is aimed at attracting and retaining foreign investment in Puerto Rico, was approved by the House of Representatives on October 9, 1997. The benefits provided by this new law would be available to new companies as well as companies currently conducting tax exempt operations in Puerto Rico which choose to renegotiate their existing tax exemption grant.

Under the 1998 Tax Incentives Bill, the activities eligible for tax exemption include manufacturing, certain designated services performed for markets outside Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico and laboratories for scientific and industrial research. For companies qualifying thereunder, the 1998 Tax Incentives Bill would impose income tax rates ranging from 2% to 7%. In addition, it would grant 90% exemption from property taxes, 100% exemption from municipal license taxes during the first eighteen months of operation and between 80% and 60% thereafter, and 100% exemption from municipal excise taxes. The 1998 Tax Incentives Bill also provides various special deductions designed to stimulate employment and productivity, research and development and capital investment in Puerto Rico.

Under the 1998 Tax Incentives Bill, companies would be able repatriate or distribute their profits free of tollgate taxes. In addition, the passive income derived from the investment of eligible funds in Puerto Rico financial institutions, obligations of the Government of Puerto Rico and other designated investments would continue to be fully exempt from income and municipal license taxes. Individual shareholders of an exempted business would be allowed a credit against their Puerto Rico income taxes equal to 30% of their proportionate share in the exempted business' income tax liability. Gain from the sale or exchange of shares of an exempted business by its shareholders during the exemption period would be subject to a 4% income tax rate.

Tourism Incentives Program

For many years Puerto Rico has also had incentives laws designed to stimulate investment in hotel operations on the island. The most recent of these laws, the Tourism Incentives Act of 1993, provides exemptions from income, property, and municipal license taxes for a period of up to 10 years. In addition, it provides certain tax credits for qualifying investments in hotel development projects.

As part of the incentives to promote the tourism industry, the Government of Puerto Rico established the Tourism Development Fund as a subsidiary of GDB with the authority to make investments in or provide financing to entities that contribute to the development of the tourism industry. The Fund was initially capitalized with \$50,000,000 and was authorized to provide financial guarantees for financing hotel development projects. To date the Fund has provided financial guarantees to private entities issuing bonds or borrowing funds to finance the development of five hotel projects which provided approximately 1,350 new hotel rooms.

Sections 30A and 936 of the Code

For many years, United States companies operating in Puerto Rico enjoyed a special tax credit that was available under Section 936 of the Code. Originally, the credit provided an effective 100% federal tax exemption for operating and qualifying investment income from Puerto Rico sources. Amendments to Section 936 made in 1993 (the “1993 Amendments”) instituted two alternative methods for calculating the tax credit and limited the amount of the credit that a qualifying company could claim. These limitations are based on a percentage of qualifying income (the “percentage of income limitation”) and on qualifying expenditures on wages, other wage related benefits and other qualifying expenditures (the “economic activity limitation”, also known as the “wage credit limitation”). As a result of amendments incorporated in the Small Business Job Protection Act of 1996 enacted by the United States Congress and signed into law by President Clinton on August 20, 1996 (the “1996 Amendments”), as described below, the tax credit is now being phased out over a ten-year period for existing claimants and is no longer available for corporations that establish operations in Puerto Rico after October 13, 1995 (including existing Section 936 Corporations (as defined below) to the extent substantially new operations are established in Puerto Rico). The 1996 Amendments also moved the credit based on the economic activity limitation to Section 30A of the Code and phased it out over 10 years. In addition, the 1996 Amendments eliminated the credit previously available for income derived from certain qualified investments in Puerto Rico. The Section 30A Credit and the remaining Section 936 credit are discussed below.

Section 30A. The 1996 Amendments added a new Section 30A to the Code. Section 30A permits a “qualifying domestic corporation” (“QDC”) that meets certain gross income tests (which are similar to the 80% and 75% gross income tests of Section 936 of the Code discussed below) to claim a credit (the “Section 30A Credit”) against the federal income tax imposed on taxable income derived from sources outside the United States from the active conduct of a trade or business in Puerto Rico or from the sale of substantially all the assets used in such business (“possession income”).

A QDC is a United States corporation which (i) was actively conducting a trade or business in Puerto Rico on October 13, 1995, (ii) had a Section 936 election in effect for its taxable year that included October 13, 1995, (iii) does not have in effect an election to use the percentage limitation of Section 936(a)(4)(B) of the Code, and (iv) does not add a “substantial new line of business.”

The Section 30A Credit is limited to the sum of (i) 60% of qualified possession wages as defined in the Code, which includes wages up to 85% of the maximum earnings subject to the OASDI portion of Social Security taxes plus an allowance for fringe benefits of 15% of qualified possession wages, (ii) a specified percentage of depreciation deductions ranging between 15% and 65%, based on the class life of tangible property, and (iii) a portion of Puerto Rico income taxes paid by the QDC, up to a 9% effective tax rate (but only if the QDC does not elect the profit-split method for allocating income from intangible property).

A QDC electing Section 30A of the Code may compute the amount of its active business income, eligible for the Section 30A Credit, by using either the cost sharing formula, the profit-split formula or the cost-plus formula, under the same rules and guidelines prescribed for such formulas as provided under Section 936 (see discussion below). To be eligible for the first two formulas, the QDC must have a significant presence in Puerto Rico.

In the case of taxable years beginning after December 31, 2001, the amount of possession income that would qualify for the Section 30A Credit would be subject to a cap based on the QDC’s possession income for an average adjusted base period ending before October 14, 1995 (the “income cap”).

Section 30A applies only to taxable years beginning after December 31, 1995 and before January 1, 2006.

Section 936. Under Section 936 of the Code, as amended by the 1996 Amendments, United States corporations that meet certain requirements and elect its application (“Section 936 Corporations”) are entitled to credit against their United States corporate income tax, the portion of such tax attributable to income derived from the active conduct of a trade or business within Puerto Rico (“active business income”) and from the sale or exchange of substantially all assets used in the active conduct of such trade or business. To qualify under Section 936 in any given taxable year, a corporation must derive for the three-year period immediately preceding the end of such taxable year, (i) 80% or more of its gross income from sources within Puerto Rico, and (ii) 75% or more of its gross income from the active conduct of a trade or business in Puerto Rico.

Under Section 936, a Section 936 Corporation may elect to compute its active business income, eligible for the Section 936 credit, under one of three formulas: (i) a cost-sharing formula, whereby it is allowed to claim all profits attributable to manufacturing intangibles and other functions carried out in Puerto Rico provided it makes a cost sharing payment in the amount required under Section 936; (ii) a profit-split formula, whereby it is allowed to claim 50% of the combined net income of its affiliated group from the sale of products manufactured in Puerto Rico; or (iii) a cost-plus formula, whereby it is allowed to claim a reasonable profit on the manufacturing costs incurred in Puerto Rico. To be eligible for the first two formulas, the Section 936 Corporation must have a significant business presence in Puerto Rico for purposes of the Section 936 rules.

As a result of the 1993 Amendments and the 1996 Amendments, the Section 936 credit is only available to companies that were operating in Puerto Rico on October 13, 1995 and had elected the percentage of income limitation, and is limited in amount to 40% of the credit allowable prior to the 1993 Amendments, subject to a five-year phase-in period from 1994 to 1998 during which period the percentage of the allowable credit is reduced from 60% to 40%.

In the case of taxable years beginning on or after 1998, the possession income subject to the 936 credit will be subject to a cap based on the Section 936 Corporation's possession income for an average adjusted base period ending on October 14, 1995. The 936 credit is eliminated for taxable years beginning in 2006.

Proposal to Extend the Phaseout of Section 30A. During 1997, Governor Rosselló proposed to Congress the enactment of a new permanent federal incentive program similar to what is now provided under Section 30A. Such program would provide U.S. companies a tax credit based on qualifying wages paid and other wage related expenses, such as fringe benefits, as well as depreciation expenses for certain tangible assets and research and development expenses. Under the Governor's proposal, the credit granted to qualifying companies would continue in effect until Puerto Rico shows, among other things, substantial economic improvements in terms of certain economic parameters. The fiscal 1998 budget submitted by President Clinton to Congress in February 1997 included a proposal to modify Section 30A to (i) extend the availability of the Section 30A Credit indefinitely, (ii) make it available to companies establishing operations in Puerto Rico after October 13, 1995, and (iii) eliminate the income cap. President Clinton's proposal, however, was not included in the fiscal 1998 federal budget. While the Government of Puerto Rico plans to continue lobbying for this proposal, it is not possible at this time to predict whether the Section 30A Credit will be so modified.

Outlook. It is not possible at this time to determine the long-term effect on the Puerto Rico economy of the enactment of the 1996 Amendments. The Government of Puerto Rico does not believe there will be short-term or medium-term material adverse effects on Puerto Rico's economy as a result of the enactment of the 1996 Amendments. The Government of Puerto Rico further believes that during the phase-out period sufficient time exists to implement additional incentive programs to safeguard Puerto Rico's competitive position.

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APPENDIX IV

PROPOSED FORMS OF OPINIONS OF PIETRANTONI MÉNDEZ & ALVAREZ, BOND COUNSEL

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PIETRANTONI MENDEZ & ALVAREZ

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APPENDIX IV

[Proposed Form of Opinion of Bond Counsel]

November , 1997

Puerto Rico Industrial Development Company
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 188 of the Legislature of Puerto Rico, approved May 11, 1942, as amended (herein called the "Enabling Act"), creating Puerto Rico Industrial Development Company (the "Company"), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"). We have also examined (i) the United States Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the "Code"); (ii) the Puerto Rico Internal Revenue Code of 1994, as amended, and regulations promulgated thereunder (the "P.R. Code"); and (iii) the Puerto Rican Federal Relations Act.

We have also examined the various proofs submitted including certified copies of the proceedings of the Company taken by the Economic Development Administrator in authorizing the execution and delivery of the Trust Indenture (hereinafter mentioned), and certified copies of the proceedings of the Economic Development Administrator, approved in accordance with the Enabling Act, relative to the authorization, sale and issuance of the following described bonds (hereinafter referred to as the "Series 1997 Bonds"):

\$51,195,340
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
GENERAL PURPOSE REVENUE BONDS, SERIES 1997 A

issued as registered bonds without coupons, in denominations of \$5,000 and multiples thereof, transferable and exchangeable, bearing interest at such rates and payable on such dates, maturing on July 1 in such years and principal amounts, and subject to redemption prior to maturity, all as set forth in the resolutions of the Company adopted in connection with the issuance of the Series 1997 Bonds.

Based on such examination, we are of the opinion that:

1. The Company is a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth with power to carry on its business as now conducted and to own its properties.
2. The Series 1997 Bonds have been duly authorized and issued for the purpose of providing funds to repay the Company's line of credit for capital improvements with Government Development Bank for Puerto Rico and to provide additional funds for use by the Company for capital improvements. The Series 1997 Bonds are valid and binding obligations of the Company payable from the special fund created by the Trust Indenture and designated "Puerto Rico Industrial Development Company Interest and Sinking Fund" (the "Sinking Fund") and from any other available funds of the Company; the Company has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the gross revenues of

the Trusteed Properties (as defined in the Trust Indenture) to pay the principal of and the interest on all bonds issued under the provisions of the Trust Indenture and then outstanding as the same shall become due and payable and to create and maintain a reserve therefor; and the gross revenues of the Trusteed Properties and the Sinking Fund are pledged to and charged with the payment of such principal and interest.

3. As authorized by the Enabling Act and by said proceedings, a trust indenture dated as of July 1, 1964, as supplemented (the "Trust Indenture"), by and between the Company and State Street Bank and Trust Company, N.A., as successor trustee, has been authorized, executed and delivered for the security of the bonds issued thereunder, is a valid and binding instrument in accordance with its terms, and contains reasonable and sufficient covenants and provisions with respect to the collection and disposition of revenues, the safeguarding of moneys on deposit and the rights and remedies of the Trustee and the holders of such bonds.

4. The Trust Indenture provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional bonds for any proper corporate purpose of the Company and for refunding any bonds issued by the Company under the provisions of the Trust Indenture.

5. The Series 1997 Bonds do not constitute a debt of the Commonwealth or of any of its municipalities or other political subdivisions, and neither the Commonwealth nor any such municipalities or other political subdivisions are liable thereon, and the Series 1997 Bonds are payable only from funds of the Company.

6. Interest on the Series 1997 Bonds is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by section 1017 of the P.R. Code.

7. The Series 1997 Bonds are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and the interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended.

8. The transfer of the Series 1997 Bonds by death or gift will not be subject to estate or gift tax under the P.R. Code if at the time of death or gift the decedent or donor was (i) a resident of Puerto Rico and (ii) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico.

9. Gain realized from the sale or exchange of a Series 1997 Bond may be subject to income tax under the P.R. Code.

10. In the case of an individual who is a *bona fide* resident of Puerto Rico during an entire taxable year, interest on the Series 1997 Bonds received by, or "original issue discount" (within the meaning of the Code) on a Series 1997 Bond with an initial offering price to the public lower than the amount due at maturity (herein called a "Discount Bond") otherwise required to be recognized as gross income and accrued to, such individual during such taxable year, will constitute gross income from sources within Puerto Rico and therefore, is excludable from gross income for purposes of the Code pursuant to section 933(1) thereof.

11. Interest on the Series 1997 Bonds derived by, or "original issue discount" (within the meaning of the Code) on Discount Bonds otherwise required to be recognized as gross income and accrued to, a corporation organized under the laws of Puerto Rico or any other foreign country ("foreign corporations") is not, in the hands of such corporation, subject to income taxation under the Code provided such interest or original issue discount is not effectively connected, or treated as effectively connected, with the conduct of a trade or business in the United States by such corporation.

12. Interest on the Series 1997 Bonds is not excludable from the gross income of the recipients thereof for federal income tax purposes under Section 103(a) of the Code.

13. A person that is subject to income tax under the Code may be subject to federal income tax on any gain realized upon the sale or exchange of the Series 1997 Bonds. However, pursuant to Notice 89-40 issued by the United States Internal Revenue Service on March 27, 1989, gain on the sale or exchange of the Series 1997 Bonds (excluding "original issue discount" accrued under the Code as of the date of such sale or exchange) by an individual who is a *bona fide* resident of Puerto Rico during the entire taxable year will constitute Puerto Rico source income and, therefore, qualify for the exclusion provided in Section 933(1) of the Code, provided such Series 1997 Bonds do not constitute inventory in the hands of such individual.

14. The transfer of the Series 1997 Bonds by death or gift will not be subject to estate or gift tax under the Code if at the time of death or gift the decedent or donor was (i) a resident of Puerto Rico and (ii) a United States citizen that acquired such citizenship solely by reason of birth or residence in Puerto Rico.

The P.R. Code does not provide rules with respect to the treatment of the excess of the amount due at maturity of a Discount Bond over its initial offering price ("original issue discount"). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, original issue discount is treated as interest.

Prospective owners of the Series 1997 Bonds, including but not limited to financial institutions, should be aware that ownership of the Series 1997 Bonds may result in having a portion of their interest and other expenses allocable to interest on the Series 1997 Bonds disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes. Also, they should be aware that the Code provides special rules for the taxation of shareholders of foreign corporations that qualify as "controlled foreign corporations," "personal holding companies," "foreign personal holding companies" or "passive foreign investment companies," as such terms are defined by the Code.

Other than as described herein, we have not addressed, and we are not opining upon, the federal or Commonwealth income tax consequences to any investor of the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Respectfully submitted,

[To be signed "Pietrantoní Méndez & Alvarez"]

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[Proposed Form of Opinion of Bond Counsel]

November , 1997

Puerto Rico Industrial Development Company
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 188 of the Legislature of Puerto Rico, approved May 11, 1942, as amended (herein called the "Enabling Act"), creating Puerto Rico Industrial Development Company (the "Company"), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"). We have also examined (i) the United States Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the "Code"); (ii) the Puerto Rico Internal Revenue Code of 1994, as amended, and regulations promulgated thereunder (the "P.R. Code"); and (iii) the Puerto Rican Federal Relations Act.

We have also examined the various proofs submitted including certified copies of the proceedings of the Company taken by the Economic Development Administrator in authorizing the execution and delivery of the Trust Indenture (hereinafter mentioned), and certified copies of the proceedings of the Economic Development Administrator, approved in accordance with the Enabling Act, relative to the authorization, sale and issuance of the following described bonds (hereinafter referred to as the "Series 1997 Bonds"):

\$81,818,584.40

**PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
REFUNDING REVENUE BONDS, SERIES 1997 A**

issued as registered bonds without coupons, in denominations of \$5,000 and multiples thereof, transferable and exchangeable, bearing interest at such rates and payable on such dates, maturing on July 1 in such years and principal amounts, and subject to redemption prior to maturity, all as set forth in the resolutions of the Company adopted in connection with the issuance of the Series 1997 Bonds.

Based on such examination, we are of the opinion that:

1. The Company is a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth with power to carry on its business as now conducted and to own its properties.

2. The Series 1997 Bonds have been duly authorized and issued for the purpose of providing funds to refund \$16,060,000 of the Company's outstanding General Purpose Revenue Bonds, Series 1978, \$5,210,000 of the Company's outstanding General Purpose Revenue Refunding Bonds, Series 1988, \$41,295,000 of the Company's outstanding General Purpose Revenue Bonds, Series 1991 and \$7,419,906.60 of the Company's outstanding Refunding Revenue Bonds, Series 1991. The Series 1997 Bonds are valid and binding obligations of the Company payable from the special fund created by the Trust Indenture and designated "Puerto Rico Industrial Development Company Interest and Sinking Fund" (the

“Sinking Fund”) and from any other available funds of the Company; the Company has covenanted to deposit to the credit of the Sinking Fund a sufficient amount of the gross revenues of the Trusteed Properties (as defined in the Trust Indenture) to pay the principal of and the interest on all bonds issued under the provisions of the Trust Indenture and then outstanding as the same shall become due and payable and to create and maintain a reserve therefor; and the gross revenue of the Trusteed Properties and the Sinking Fund are pledged to and charged with the payment of such principal and interest.

3. As authorized by the Enabling Act and by said proceedings, a trust indenture dated as of July 1, 1964, as supplemented (the “Trust Indenture”), by and between the Company and State Street Bank and Trust Company, N.A., successor trustee, has been authorized, executed and delivered for the security of the bonds issued thereunder, is a valid and binding instrument in accordance with its terms, and contains reasonable and sufficient covenants and provisions with respect to the collection and disposition of revenues, the safeguarding of moneys on deposit and the rights and remedies of the Trustee and the holders of such bonds.

4. The Trust Indenture provides for the issuance, from time to time, under the conditions, limitation and restrictions therein set forth, of additional bonds for any proper corporate purpose of the Company and for refunding any bonds issued by the Company under the provisions of the Trust Indenture.

5. The Series 1997 Bonds do not constitute a debt of the Commonwealth or of any of its municipalities or other political subdivisions, and neither the Commonwealth nor any such municipalities or other political subdivisions are liable thereon, and the Series 1997 Bonds are payable only from funds of the Company.

6. Interest on the Series 1997 Bonds is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by section 1017 of the P.R. Code.

7. The Series 1997 Bonds are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and the interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended.

8. The transfer of the Series 1997 Bonds by death or gift will not be subject to estate or gift tax under the P.R. Code if at the time of death or gift the decedent or donor was (i) a resident of Puerto Rico and (ii) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico.

9. Gain realized from the sale or exchange of a Series 1997 Bond may be subject to income tax under the P.R. Code.

10. In the case of an individual who is a *bona fide* resident of Puerto Rico during an entire taxable year, interest on the Series 1997 Bonds received by, or “original issue discount” (within the meaning of the Code) on a Series 1997 Bond with an initial offering price to the public lower than the amount due at maturity (herein called a “Discount Bond”) otherwise required to be recognized as gross income and accrued to, such individual during such taxable year, will constitute gross income from sources within Puerto Rico and therefore, is excludable from gross income for purposes of the Code pursuant to section 933(1) thereof.

11. Interest on the Series 1997 Bonds derived by, or “original issue discount” (within the meaning of the Code) on Discount Bonds otherwise required to be recognized as gross income and accrued to, a corporation organized under the laws of Puerto Rico or any other foreign country (“foreign corporations”) is not, in the hands of such corporation, subject to income taxation under the Code provided such interest or original issue discount is not effectively connected, or treated as effectively connected, with the conduct of a trade or business in the United States by such corporation.

12. Interest on the Series 1997 Bonds is not excludable from the gross income of the recipients thereof for federal income tax purposes under Section 103(a) of the Code.

13. A person that is subject to income tax under the Code may be subject to federal income tax on any gain realized upon the sale or exchange of the Series 1997 Bonds. However, pursuant to Notice 89-40 issued by the United States Internal Revenue Service on March 27, 1989, gain on the sale or exchange of the Series 1997 Bonds (excluding “original issue discount” accrued under the Code as of the date of such sale or exchange) by an individual who is a *bona fide* resident of Puerto Rico during the entire taxable year will constitute Puerto Rico source income and, therefore, qualify for the

exclusion provided in Section 933(1) of the Code, provided such Series 1997 Bonds do not constitute inventory in the hands of such individual.

14. The transfer of the Series 1997 Bonds by death or gift will not be subject to estate or gift tax under the Code if at the time of death or gift the decedent or donor was (i) a resident of Puerto Rico and (ii) a United States citizen that acquired such citizenship solely by reason of birth or residence in Puerto Rico.

The P.R. Code does not provide rules with respect to the treatment of the excess of the amount due at maturity of a Discount Bond over its initial offering price ("original issue discount"). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, original issue discount is treated as interest.

Prospective owners of the Series 1997 Bonds, including but not limited to financial institutions, should be aware that ownership of the Series 1997 Bonds may result in having a portion of their interest and other expenses allocable to interest on the Series 1997 Bonds disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes. Also, they should be aware that the Code provides special rules for the taxation of shareholders of foreign corporations that qualify as "controlled foreign corporations," "personal holding companies," "foreign personal holding companies" or "passive foreign investment companies," as such terms are defined by the Code.

Other than as described herein, we have not addressed, and we are not opining upon, the federal or Commonwealth income tax consequences to any investor of the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Respectfully submitted,

[To be signed "Pietrantoní Méndez & Alvarez"]

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APPENDIX V

TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS

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TABLE OF ACCRETED VALUES
Per \$5,000 Maturity Amount
Capital Appreciation Bonds
Due July 1,

Valuation Date	2008		2009	
	General Purpose Revenue	Refunding Revenue	General Purpose Revenue	Refunding Revenue
November 6, 1997	\$2,516.45	\$2,516.45	\$2,359.40	\$2,359.40
January 1, 1998	\$2,541.35	\$2,541.35	\$2,382.75	\$2,382.75
July 1, 1998	\$2,624.60	\$2,624.60	\$2,460.75	\$2,460.75
January 1, 1999	\$2,710.55	\$2,710.55	\$2,541.35	\$2,541.35
July 1, 1999	\$2,799.30	\$2,799.30	\$2,624.60	\$2,624.60
January 1, 2000	\$2,891.00	\$2,891.00	\$2,710.55	\$2,710.55
July 1, 2000	\$2,985.70	\$2,985.70	\$2,799.30	\$2,799.30
January 1, 2001	\$3,083.45	\$3,083.45	\$2,891.00	\$2,891.00
July 1, 2001	\$3,184.45	\$3,184.45	\$2,985.70	\$2,985.70
January 1, 2002	\$3,288.75	\$3,288.75	\$3,083.45	\$3,083.45
July 1, 2002	\$3,396.45	\$3,396.45	\$3,184.45	\$3,184.45
January 1, 2003	\$3,507.70	\$3,507.70	\$3,288.75	\$3,288.75
July 1, 2003	\$3,622.55	\$3,622.55	\$3,396.45	\$3,396.45
January 1, 2004	\$3,741.20	\$3,741.20	\$3,507.70	\$3,507.70
July 1, 2004	\$3,863.70	\$3,863.70	\$3,622.55	\$3,622.55
January 1, 2005	\$3,990.25	\$3,990.25	\$3,741.20	\$3,741.20
July 1, 2005	\$4,120.95	\$4,120.95	\$3,863.70	\$3,863.70
January 1, 2006	\$4,255.90	\$4,255.90	\$3,990.25	\$3,990.25
July 1, 2006	\$4,395.30	\$4,395.30	\$4,120.95	\$4,120.95
January 1, 2007	\$4,539.25	\$4,539.25	\$4,255.90	\$4,255.90
July 1, 2007	\$4,687.90	\$4,687.90	\$4,395.30	\$4,395.30
January 1, 2008	\$4,841.40	\$4,841.40	\$4,539.25	\$4,539.25
July 1, 2008	\$5,000.00	\$5,000.00	\$4,687.90	\$4,687.90
January 1, 2009			\$4,841.40	\$4,841.40
July 1, 2009			\$5,000.00	\$5,000.00

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