NEW ISSUE-BOOK ENTRY ONLY

<u>Ratings</u>
Standard & Poor's: BBB
Moody's: Baa1

$161,680,159.20
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
$135,765,159.20 General Purpose Revenue Bonds, Series 2003
$25,915,000.00 Refunding Revenue Bonds, Series 2003

The General Purpose Revenue Bonds, Series 2003, and the Refunding Revenue Bonds, Series 2003 (collectively, the "Series 2003 Bonds") will be issued as registered bonds and will initially be registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2003 Bonds. Purchasers of the Series 2003 Bonds will not receive physical delivery of the Series 2003 Bonds.

The Series 2003 Bonds are being issued 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 U.S. Bank Trust National Association, successor trustee (the "Trustee") and, together with the outstanding bonds of PRIDCO and such additional bonds as may be issued under the Trust Indenture (collectively, the "Bonds"), 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 2003 Bonds will have the following characteristics:

- The Series 2003 Bonds will be issued as Serial Bonds, Term Bonds and Capital Appreciation Bonds.
- Interest on the Serial Bonds and the Term Bonds will be payable monthly on the first day of each month beginning on September 1, 2003. Interest on the Capital Appreciation Bonds will compound every six months, on each January 1 and July 1 commencing on January 1, 2004, and will be payable at maturity or prior payment in full of such bonds. Interest will accrue from the date of issuance of the Series 2003 Bonds.
- Interest on the Series 2003 Bonds is exempt from Puerto Rico taxes and, under certain circumstances, United States taxes to residents of Puerto Rico. See "Taxation" beginning on page 35 of this Official Statement.
- The Series 2003 Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof in the case of Serial and Term Bonds, and in maturity amounts of $5,000 or any integral multiple thereof in the case of Capital Appreciation Bonds.
- The Series 2003 Bonds are subject to optional and mandatory redemption as described in this Official Statement.
- The inside front cover sets forth detailed information on the maturities, interest rates and prices or yields of the Series 2003 Bonds.

THE SERIES 2003 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COMMONWEALTH OF PUERTO RICO (THE "COMMONWEALTH") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE COMMONWEALTH NOR ANY OF SUCH SUBDIVISIONS SHALL BE LIABLE THEREON, AND THE SERIES 2003 BONDS AND INTEREST THEREON ARE NOT PAYABLE FROM ANY FUNDS OTHER THAN THOSE OF PRIDCO.

The Series 2003 Bonds are offered for delivery when, as and if issued and received by the Underwriters, subject to the approval of legality by Pietrantoni Méndez & Alvarez LLP, San Juan, Puerto Rico, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by O'Neill & Borges, San Juan, Puerto Rico. It is expected that settlement for the Series 2003 Bonds will occur in San Juan, Puerto Rico, on or about July 30, 2003.

Oriental Financial Services

Popular Securities **UBS Financial Services Incorporated of Puerto Rico**

BBVA Capital Markets **Citigroup** **Doral Securities**
Morgan Stanley **Santander Securities** **Wachovia Securities LLC**

July 23, 2003

$161,680,159.20
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

$135,765,159.20 General Purpose Revenue Bonds, Series 2003

$2,395,000 Serial Bonds

Maturity Date (July 1,)	Principal Amount	Interest Rate	Price
2017	$1,170,000	5.10%	100%
2018	$1,225,000	5.15%	100%

$5,535,159.20 Capital Appreciation Bonds

Maturity Date (July 1,)	Initial Principal Amount	Amount Due at Maturity	Yield to Maturity
2017	$2,847,979.40	$5,780,000	5.15%
2018	$2,687,179.80	$5,780,000	5.20%

$127,835,000 Term Bonds

$48,925,000 5.20% Term Bonds due July 1, 2023 - Yield 5.20%

$78,910,000 5.25% Term Bonds due July 1, 2028 - Yield 5.286%

$25,915,000 Refunding Revenue Bonds, Series 2003

$25,915,000 Serial Bonds

Maturity Date	Principal Amount	Interest Rate	Price
July 1, 2004	$2,880,000	1.50%	100%
January 1, 2005	3,750,000	2.00%	100%
July 1, 2005	3,750,000	2.10%	100%
January 1, 2006	3,830,000	2.50%	100%
July 1, 2006	3,830,000	2.65%	100%
January 1, 2007	3,940,000	3.00%	100%
July 1, 2007	3,935,000	3.00%	100%

No dealer, broker, salesman or any other person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Official Statement in connection with the offer made by this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized. The information contained herein has been obtained from PRIDCO and from other sources which 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 or, as to information from such other sources, by PRIDCO. 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 implies that there has not been any change in the affairs of PRIDCO at any time subsequent to the date hereof. This Official Statement is delivered in connection with the offer and sale of the Series 2003 Bonds described herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriters have provided the following sentence and the next paragraph for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2003 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This summary highlights information contained elsewhere in this Official Statement with respect to the Series 2003 Bonds (as defined below). You should read the entire Official Statement including the Appendices hereto.

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

Purpose - The Puerto Rico Industrial Development Company General Purpose Revenue Bonds, Series 2003 (the "Series 2003 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, to deposit $2,662,865.88 in the Bond Service Account to be applied to pay interest on the outstanding Bonds and to provide $52,118,571.03 for the construction of additional industrial facilities. The Puerto Rico Industrial Development Company Refunding Revenue Bonds, Series 2003 (the "Series 2003 Refunding Revenue Bonds") are being issued to refund $10,725,000 aggregate principal amount of General Purpose Revenue Bonds, Series 1991 and $14,694,487.02 aggregate accreted value of Refunding Revenue Bonds, Series 1991 (collectively, the "Defeased Bonds"). The Series 2003 General Purpose Revenue Bonds and the Series 2003 Refunding Revenue Bonds are referred to herein collectively as the "Series 2003 Bonds". The Series 2003 Bonds, the outstanding bonds of PRIDCO (excluding the Defeased Bonds) and any additional bonds which may be issued under the Trust Indenture (as defined below) are referred to herein collectively as the "Bonds".

Security - The Bonds are secured under a trust indenture, dated as of July 1, 1964, as amended (the "Trust Indenture") and are payable from the gross revenues received by PRIDCO from certain of its properties, designated in the Trust Indenture as the Trusteed Properties and, if required, from other available funds.

Under the Trust Indenture, PRIDCO is required on or before the 10th day of each month, to file with the Trustee a certificate setting forth (i) the gross revenues of the Trusteed Properties during the 12 months immediately preceding the month in which the certificate was signed and (ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on all Bonds then outstanding. 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.

Reserve Account - Under the Trust Indenture, PRIDCO is required to accumulate and maintain in the Reserve Account created thereunder an amount (in cash or through a letter of credit or insurance facility) 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 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.

Amortization Requirements of Term Bonds - A portion of the Term Bonds due on July 1, 2023, and July 1, 2028, will be redeemed to the extent of their respective amortization requirements on each January 1 and July 1, commencing on January 1, 2019, and January 1, 2024, respectively, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest to the redemption date, without premium, as specified in "DESCRIPTION OF THE SERIES 2003 BONDS - Redemption Provisions - Amortization Requirements for Term Bonds."

Redemption at the Option of PRIDCO - The Series 2003 Bonds that mature after July 1, 2011 may be redeemed at the option of PRIDCO in whole at any time or in part on any interest payment date, in such order of maturity as directed by PRIDCO, not earlier than July 1, 2011, at the following prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) plus accrued interest to the redemption date:

Redemption Period	Redemption Price
July 1, 2011 through June 30, 2012	101%
July 1, 2012 through June 30, 2013	100 $^{1}/_{2}$%
July 1, 2013 and thereafter	100%

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)

	1998	1999	2000	2001	2002
Gross Revenues Available for Debt Service[1]	$58,503	$54,233	$57,540	$57,279	$59,500
Principal and Interest Requirements	$16,809	$18,856	$18,858	$18,861	$18,856
Debt Coverage Ratio	3.48	2.88	3.05	3.04	3.16

[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 Ended June 30)
(dollars in thousands)

	2003	2004	2005	2006	2007
Gross Revenues Available for Debt Service[1]	$59,439	$61,479	$66,917	$71,406	$75,940
Principal and Interest Requirements including Series 2003 Bonds	$18,862	$22,973	$25,670	$25,667	$25,662
Debt Coverage Ratio	3.15	2.68	2.61	2.78	2.96

[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 March 31, 2003, adjusted for the issuance of the Series 2003 Bonds and the defeasance of the Defeased Bonds, PRIDCO's total debt of $315,391,000 represents 39.8% of the sum of total debt and capital accounts of $793,378,000.

Capital Improvements Program - PRIDCO plans to invest approximately $255,949,000 during the five fiscal years ending June 30, 2007 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, loans and proceeds from the Series 2003 Bonds.

Taxation - In the opinion of Pietrantoni Méndez & Alvarez LLP, Bond Counsel, under existing law, (i) the Series 2003 Bonds and the interest thereon are exempt from Puerto Rico income, municipal license and personal property taxes, (ii) under certain circumstances, the Series 2003 Bonds are exempt from Puerto Rico gift and estate taxes, (iii) the interest on the Series 2003 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 Series 2003 Bonds is not excludable from the gross income of the recipients thereof under Section 103(a) of the Code.

Trustee - The Trustee is U.S. Bank Trust National Association, which has its corporate trust office at 100 Wall Street, Suite 1600, New York, New York; telephone (800) 934-6802

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: Executive Director; telephone (787) 758-4747. Supplemental information relating to the Commonwealth will be available from GDB at its principal offices located at Minillas Government Center, De Diego Ave., Santurce, PR 00940, Attention: Director of Public Finance; telephone (787) 722-2525.

$161,680,159.20
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
$135,765,159.20 General Purpose Revenue Bonds, Series 2003
$25,915,000.00 Refunding Revenue Bonds, Series 2003

INTRODUCTION

This Official Statement is provided to furnish information in connection with the issuance and sale by Puerto Rico Industrial Development Company ("PRIDCO") of its General Purpose Revenue Bonds, Series 2003 (the "Series 2003 General Purpose Revenue Bonds") and its Refunding Revenue Bonds, Series 2003 (the "Series 2003 Refunding Revenue Bonds" and together with the Series 2003 General Purpose Revenue Bonds, the "Series 2003 Bonds") to be issued pursuant to Puerto Rico Act No. 188 of May 11, 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 U.S. Bank Trust National Association, New York, New York, successor trustee (the "Trustee"). The Series 2003 Bonds, the outstanding bonds of PRIDCO (excluding the Defeased Bonds, as defined herein) and any Additional Bonds which may be issued under the Trust Indenture are referred to herein collectively as the "Bonds."

This Official Statement incorporates by reference (i) the Commonwealth's Financial Information and Operating Data Report, dated April 1, 2003 (the "Commonwealth Report"), which appears as Appendix I to the Official Statement, dated April 16, 2003, of the Commonwealth of Puerto Rico relating to its Public Improvement Refunding Bonds, Series 2003 B, and Public Improvement Refunding Bonds, Series 2003 C and (ii) the Comprehensive Annual Financial Report of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2002 prepared by the Department of the Treasury of Puerto Rico (the "Commonwealth's Annual Financial Report"), which report includes the basic financial statements of the Commonwealth as of and for the fiscal year ended June 30, 2002, which have been audited by KPMG LLP, independent auditors, as stated in their report dated April 30, 2003, accompanying the financial statements. KPMG LLP did not audit the financial statements of the Public Buildings Authority capital project fund (a major fund) and certain activities, funds and component units separately identified in their report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, and their opinion in the basic financial statements, insofar as it relates to the amounts included in the basic financial statements pertaining to such activities, funds and component units, is based solely on the reports of the other auditors.

The Commonwealth's Annual Financial Report and the Commonwealth Report were filed by the Commonwealth with the Municipal Securities Rulemaking Board (the "MSRB") and with each nationally recognized municipal securities information repository ("NRMSIR"). Any appendix of an official statement of the Commonwealth or of any instrumentality of the Commonwealth filed with each NRMSIR and the MSRB or any other document containing the same information as the Commonwealth Report filed with each NRMSIR after the date hereof and prior to the termination of the offering of the Bonds shall also be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Bonds are not a debt of the Commonwealth or any of its political subdivisions or instrumentalities, other than PRIDCO and neither the Commonwealth nor any of its political subdivisions or instrumentalities, other than PRIDCO, is required to pay the Bonds.

This Official Statement includes descriptions of PRIDCO together with other information including summaries of the terms of the Bonds and the Trust Indenture. Such summaries and the references to all documents included herein do not purport to be complete, and each summary and reference is qualified in its entirety by reference to each such document, copies of which are available from the Underwriters prior to the issuance of the Bonds and from the Trustee thereafter. All references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Trust Indenture.

This Official Statement, including information incorporated by reference in this Official Statement, contains certain forward looking statements concerning the operations and financial condition of PRIDCO and the Commonwealth. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of PRIDCO and the Commonwealth. The words "may," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward looking statements. Actual results may vary materially from those expressed or implied by these forward looking statements.

FINANCING PLAN

The Series 2003 General Purpose Revenue Bonds

The Series 2003 General Purpose Revenue Bonds will be used to provide funds for the repayment of PRIDCO's line of credit for capital improvements with Government Development Bank for Puerto Rico ("GDB"), to deposit $2,662,865.88 in the Bond Service Account to be applied to pay interest on the outstanding Bonds, and for the construction of additional industrial facilities.

The Series 2003 Refunding Revenue Bonds

The Series 2003 Refunding Revenue Bonds will be issued to refund $10,725,000 aggregate principal amount of General Purpose Revenue Bonds, Series 1991 and $14,694,487.02 aggregate accreted value of Refunding Revenue Bonds, Series 1991 (collectively, the "Defeased Bonds"), as set forth below.

	Maturity	Redemption Date	Redemption Price	Principal Amount Outstanding	Principal to be Refunded
General Purpose Revenue Bonds, Series 1991					
	January 1, 2004	September 2, 2003	101%	$1,170,000	$1,170,000
	July 1, 2004	September 2, 2003	101%	$1,215,000	$1,215,000
	January 1, 2005	September 2, 2003	101%	$1,260,000	$1,260,000
	July 1, 2005	September 2, 2003	101%	$1,310,000	$1,310,000
	January 1, 2006	September 2, 2003	101%	$1,360,000	$1,360,000
	July 1, 2006	September 2, 2003	101%	$1,415,000	$1,415,000
	January 1, 2007	September 2, 2003	101%	$1,470,000	$1,470,000
	July 1, 2007	September 2, 2003	101%	$1,525,000	$1,525,000
Refunding Revenue Bonds, Series 1991					
	July 1, 2004*	January 1, 2004	100.5%	$2,348,407.28	$2,348,407.28
	January 1, 2005*	January 1, 2004	100.5%	$2,259,171.60	$2,259,171.60
	July 1, 2005*	January 1, 2004	100.5%	$2,178,299.40	$2,178,299.40
	January 1, 2006*	January 1, 2004	100.5%	$2,091,738.80	$2,091,738.80
	July 1, 2006*	January 1, 2004	100.5%	$2,012,741.36	$2,012,741.36
	January 1 2007*	January 1, 2004	100.5%	$1,936,725.60	$1,936,725.60
	July 1, 2007*	January 1, 2004	100.5%	$1,867,402.98	$1,867,402.98

*Capital Appreciation Bonds. Stated amounts reflect accreted values at redemption date.

Sources and Uses of Funds

Table III - Sources and Uses of Funds

Sources:	
Principal Amount of Series 2003 General Purpose Revenue Bonds	$135,765,159.20
Principal Amount of Series 2003 Refunding Revenue Bonds	25,915,000.00
Original Issue Discount	(394,550.00)
Total Sources	$161,285,609.20
Uses:	
Deposit to Bond Service Account	$ 2,662,865.88
Deposit to Escrow Account	25,681,399.67
Capital Improvements Program[1]	52,118,571.03
Payment of GDB Line of Credit[2]	78,692,841.80
Underwriting Discount and Estimated Legal, Printing and Financing Expenses	2,129,930.82
Total Uses	$161,285,609.20

[1]See "CAPITAL IMPROVEMENTS PROGRAM - Projected."
[2]See Table X - Debt and Capital Accounts.

SECURITY

Sources of Payment

The principal of and interest on the 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, for each semiannual period, the 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 debt service requirement, is to be transferred to a separate account and will be available for any proper corporate purpose of PRIDCO.

Under the Trust Indenture, PRIDCO is required on or before the 10th day of each month, to file with the Trustee, a certificate setting forth (i) the gross revenues of the Trusteed Properties during the 12 months immediately preceding the month in which the certificate was signed and (ii) the amount of the maximum Principal and Interest Requirements for any fiscal year thereafter on all Bonds then outstanding. 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 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, letters of credit or insurance facilities) equal to the maximum annual Principal and Interest Requirements on all outstanding Bonds, including the Series 2003 Bonds (and excluding Defeased Bonds). On June 30, 2003, the balance in the Reserve Account was $26,876,113.38 which amount is greater than the maximum annual Principal and Interest Requirements on the Bonds, including the Series 2003 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 "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE - Collection and Disposition of Revenues." Excess moneys in the Reserve Account are permitted to be released to PRIDCO and made available for its general corporate purposes, including additional capital improvements.

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 Executive Director and Comptroller 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), or 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 months period as if they had been in effect throughout such 12 months period;

(iii) the amount of any interest in cash 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 "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE - 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 following 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 "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE - Issuance of Additional Bonds."

DESCRIPTION OF THE SERIES 2003 BONDS

General

The Series 2003 Bonds will be issued pursuant to the Trust Indenture as Serial Bonds, Term Bonds, and Capital Appreciation Bonds and will be dated the date of their delivery.

The Bonds are issuable as registered bonds without coupons in denominations of $5,000 and multiples thereof in the case of Serial Bonds and Term Bonds, and $5,000 maturity amounts and multiples thereof in the case of Capital Appreciation Bonds. The Series 2003 Bonds will bear interest at such rates or have a yield to maturity, be payable at such times, and will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement.

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 2003 Bonds. The Series 2003 Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2003 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or for the benefit of DTC.

DTC, the world's largest depository, 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 Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. Securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Bonds Clearing Corporation, Government Bonds Clearing Corporation, NBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc.

Access to the DTC system is also available to others such as both U.S. and non-U.S. Securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2003 Bond ("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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 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 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other nominee as may be requested by an authorized representative of DTC. The deposit of Series 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the Series 2003 Bonds for their benefits has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2003 Bonds within a maturity 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 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to PRIDCO as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from PRIDCO, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2003 Bonds 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, its nominee, or PRIDCO, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of PRIDCO, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to PRIDCO or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive bond certificates will be printed and delivered.

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

In the event that such book-entry only system is discontinued, the following provisions will apply: principal of the Series 2003 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. The transfer of Series 2003 Bonds will be registrable and they may be exchanged at the corporate trust office of the Trustee upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Principal and Interest

Serial Bonds and Term Bonds. The principal of and premium, if any, on the Serial Bonds and Term Bonds will be payable upon presentation and surrender thereof at the corporate trust office of the Trustee. Interest on the Serial Bonds and Term Bonds will be payable on the first day of each month, commencing on September 1, 2003, by check mailed to the persons shown on the registration books of the Trustee as the registered owners thereof on the 15th day of the immediately preceding month.

Capital Appreciation Bonds. The Capital Appreciation Bonds will be payable upon presentation and surrender thereof at the corporate trust office of the Trustee in amounts equal to their respective Accreted Values as of their dates of maturity, redemption or acceleration. The Accreted Value expressed as a percentage of the maturity amount of each Capital Appreciation Bond on January 1 and July 1 of each year while the Capital Appreciation Bonds are outstanding (each, a "Valuation Date") is shown in Appendix IV 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 on such Valuation Dates. Interest on the Capital Appreciation Bonds will compound every six months, on each January 1 and July 1 commencing on January 1, 2004, and will be included as part of their Accreted Value due and payable at the maturity of such bond or at such other date at which such bond is payable in full.

References in this Official Statement to "principal" of the bonds means, in the case of the Capital Appreciation Bonds, the Accreted Value of such bonds.

Interest on all of the bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Redemption Provisions

Optional Redemption. The Series 2003 Bonds maturing after July 1, 2011, 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, 2011, or on any date thereafter, or (ii) in part, in such order of maturity as directed by PRIDCO, on July 1, 2011 or 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:

Redemption Period	Redemption Price
July 1, 2011 through June 30, 2012	101%
July 1, 2012 through June 30, 2013	100 $^1/_2$%
July 1, 2013 and thereafter	100%

Amortization Requirements for Term Bonds. The Series 2003 General Purpose Revenue Term Bonds maturing on July 1, 2023, and July 1, 2028, are subject to redemption to the extent of their respective amortization requirements on January 1, 2019 and January 1, 2024, respectively, and on each January 1 and July 1 thereafter from moneys in the Sinking Fund at par plus accrued interest to the date fixed for redemption, as follows:

General Purpose Revenue Terms Bonds

	Term Bonds due 2023		Term Bonds due 2028	
Year	January 1	July 1	January 1	July 1
2019	$3,540,000	$3,620,000		
2020	3,725,000	3,815,000		
2021	3,925,000	4,015,000		
2022	6,360,000	6,445,000		
2023	6,695,000	6,785,000		
2024			$7,040,000	$7,150,000
2025			7,420,000	7,520,000
2026			7,820,000	7,920,000
2027			8,235,000	8,345,000
2028			8,665,000	8,795,000

The average life of the Series 2003 General Purpose Revenue Term Bonds due July 1, 2023, and July 1, 2028 is 18.038 years and 22.775 years, respectively.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

PRIDCO was established by the Act as a public corporation of the Commonwealth 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, which includes the leasing or sale of facilities 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.

Until 1997, PRIDCO's efforts in fostering Puerto Rico's economic development were complemented by the activities of the Economic Development Administration ("EDA"). EDA was a public agency of the Commonwealth in charge of attracting investment to the manufacturing and service sectors and facilitating the establishment and expansion of industries in Puerto Rico. On January 1, 1998, EDA was merged with and into PRIDCO and the latter became responsible for all the operations and activities which were previously conducted by the two separate entities. After the merger, PRIDCO remained a public corporation under the umbrella of the Department of Economic Development and Commerce. The Act requires that besides generating its own revenues and expenses, PRIDCO submit to the Office of Management and Budget a request for governmental appropriation under the annual budget of the Commonwealth.

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 a Board of Directors. The Act provides that the Board of Directors shall consist of seven members. The Secretary of Economic Development and Commerce, the President of Government Development Bank for Puerto Rico, the Secretary of the Treasury and the President of the Planning Board are each *ex officio* members of the Board of Directors. The remaining three members of the Board of Directors are appointed by the Governor of Puerto Rico for terms of four years and confirmed by the Senate. The following individuals are the current members of the Board of Directors.

MEMBER	OCCUPATION	EXPIRATION DATE
Milton Segarra, Chairman	Secretary of Economic Development and Commerce	Indefinite
Héctor Méndez Vázquez	President, Government Development Bank for Puerto Rico	Indefinite
Juan A. Flores Galarza	Secretary of the Treasury	Indefinite
Angel David Rodríguez	President, Planning Board	Indefinite
Bartolomé Gamundi	Vice President of Manufacturing and General Manager of ElectroBiology, Inc.	May 1, 2007
Roberto Valentín	Private Investor	November 16, 2005
Angel J. Seda Comas	Assistant Treasurer of Wyeth Pharmaceuticals, Inc.	Pending confirmation

The following are PRIDCO's principal officers:

Milton Segarra became Executive Director effective on July 1, 2003 subject to confirmation by the Senate. Mr. Segarra is also the Secretary of Economic Development and Commerce since 2002. He was previously Executive Director of Puerto Rico Tourism Company. Prior to joining the Puerto Rico Tourism Company in 2001, Mr. Segarra worked for Hilton International of Puerto Rico as Director of Revenue and Business Management. Mr. Segarra received a bachelor's degree in Finance and Marketing from the University of Puerto Rico at Mayaguez. He has also undertaken professional development courses from Ashridge Business Administration Institute in London and Cornell University's School of Hotel Administration.

José Luis Ramírez Irizarry is Senior Deputy Executive Director. He has worked at PRIDCO since 1964 and has held various positions including Vice-President of Legal Affairs & General Counsel, and Tax and Legislative Affairs Director. Mr. Ramírez Irizarry received a bachelor's degree in History with a major in Social Sciences and Economics from Interamerican University and a law degree from University of Puerto Rico.

Dora Monserrate Peñagarícano is Corporate Secretary and General Legal Counsel. Prior to joining PRIDCO, Ms. Monserrate worked as an attorney in private practice. Ms. Monserrate received a bachelor's degree in Languages from Duquesne University and a law degree from Interamerican University.

Maritza A. Cruz Minguela has been Deputy Executive Director for Finance since 2002. She had been appointed comptroller of PRIDCO in 2001. Prior to joining PRIDCO she worked for TRICON, a large fast food operator, from 1993 to 2001 and for KPMG Peat Marwick from 1990 to 1993. She holds a BA in Accounting from University of Puerto Rico. She is a certified public accountant.

Alfredo Pérez Zapata is Deputy Executive Director of Infrastructure Development. He has held various positions in PRIDCO since 1980. Mr. Pérez Zapata received a bachelor's degree in Civil Engineering from University of Puerto Rico at Mayaguez.

Neil Watlington Armstrong is Deputy Executive Director of New Business Development. Prior to joining PRIDCO in 2001, Mr. Watlington worked for AES Corporation as Vice-President of Developments and Project Director in worldwide business developments. Mr. Watlington has a bachelor's degree in Economics from Penn State University and a law degree from University of Puerto Rico.

Carmen A. Prieto is Deputy Executive Director of Continental and International Industrial Promotions. She has worked in the Continental Promotions and Industrial Service divisions since 1986. Ms. Prieto has a bachelor's degree in Communications from University of Puerto Rico and a master's degree in Organizational Communications from University of New York at Albany.

Rafael Reilova Vélez is Deputy Executive Director of Local Promotions. He had worked for PRIDCO as a Promotional Officer. Mr. Reilova has a bachelor's degree in Industrial Engineering from University of Puerto Rico at Mayaguez and an associate degree in Industrial Management for Apparel and Textiles from Fashion Institute of Technology.

Zaida Pérez Zayas is Deputy Executive Director of Industrial Services. She has held various positions in PRIDCO. Ms. Pérez has a bachelor's degree in Business Administration from University of Puerto Rico.

Rocío Cruz Díaz, PhD is Deputy Executive Director of Human Resources and Labor Relations. Prior to joining PRIDCO, Ms. Cruz worked for Management Research & Supporting Services, Inc. as Director of Customer Relations. Ms. Cruz has a bachelor's degree in Psychology from University of Puerto Rico and a master's degree in Industrial Organizational Psychology from Centro Caribeño de Estudios Postgraduados. Ms. Cruz is currently working on her thesis in order to obtain a PhD in Industrial Organizational Psychology from Centro Caribeño de Estudios Postgraduados.

Lorenzo Fernández Camacho is Deputy Executive Director of Administration. Mr. Fernández had previously worked for the General Services Administration and the Office of Management and Budget. Mr. Fernández has a bachelor's degree in Business Administration from University of Puerto Rico.

Roberto Zenón is General Auditor, a position he has held since 2001. Mr. Zenón has worked at PRIDCO since 1991, where he has held various positions in the Office of the General Auditor. Before joining PRIDCO, Mr. Zenón worked as an auditor in the Department of Treasury of Puerto Rico. Mr. Zenón has a bachelor's degree in Business Administration from the University of Puerto Rico. He has been a certified public accountant since 1989.

Jorge Rodríguez Sanfeliz is Treasurer. He has held various accounting positions in PRIDCO since 1988. Mr. Rodríguez has a bachelor's degree in Accounting from American University and a master's degree in Business Administration from Interamerican University.

Lourdes Rodríguez Arias is Comptroller. Prior to joining PRIDCO, Ms. Rodríguez worked as comptroller of Puerto Rico Tourism Company and as an accounting manager in the private sector. Ms. Rodríguez has a bachelor's degree in Business Administration from University of Puerto Rico. She is a certified public accountant.

As of December 31, 2002, PRIDCO had 632 permanent employees, 277 of which belong to Puerto Rico Industrial Development Company Independent Employees Union. The Independent Employees Union is composed of two separate contracting units, representing office employees and project inspectors. Each contracting unit has a separate collective bargaining agreement, both of which expire in 2005. 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 P.O. 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 March 31, 2003, PRIDCO owned approximately 25,473,851 square feet of space in industrial buildings. Of this amount, approximately 22,097,926 square feet were under lease. Of the balance of 3,375,924 square feet, 1,017,112 square feet are under lease negotiations, 1,197,856 are reserved for prospective tenants, and 1,160,956 square feet are available for prospective tenants.

Historically, PRIDCO constructed general purpose buildings in advance of demand and special industrial buildings on demand. Although for several years PRIDCO did not construct general purpose buildings in advance of demand, in fiscal year 2003 PRIDCO started again to construct such buildings in advance of demand. As a result, four new projects and four remodeling projects are being developed at this time.

PRIDCO's general purpose buildings are located on sites with access to adequate transportation systems, public utilities and other services. Such buildings are usually constructed on five-inch reinforced concrete slabs. Walls are six-inch concrete blocks; other features include steel columns and beams, steel joints and insulated metal 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.

PRIDCO has developed a new typical general purpose building, which may be modified for the specific needs of any given tenant. 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 height of existing low bay buildings to 24 or 30 feet, making these properties more attractive to clients and extending their useful lives. Delivery time, an important requirement for a prospective tenant, is under constant supervision and study. In-house project evaluation, permitting and delivery time has been greatly reduced, applying state of the art technology and property management techniques.

PRIDCO also constructs special purpose buildings. 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, all of which require special facilities. Design and construction of such facilities are coordinated by PRIDCO with the new tenants pursuant to a previously agreed cost reimbursement and lease contract. For construction of a special purpose building, PRIDCO requires the tenant to execute a lease contract for a period which allows PRIDCO to recover its investment in full.

In addition, in certain cases in which the tenant has required a special facility involving a significant capital investment PRIDCO has entered into the following financial arrangement with the tenant: Puerto Rico Industrial Investment Corporation ("PRIICO"), a subsidiary of PRIDCO, borrows the funds required to construct the special facility from a commercial bank ("Lender"); the funds are then loaned by PRIICO to PRIDCO and PRIDCO uses the funds to construct the facility; the facility is leased by PRIDCO to the tenant and the rent therefrom is assigned to Lender as security for the loan to PRIICO; the facility is mortgaged in favor of Lender as security for the loan; and the loan to PRIICO is guaranteed by PRIDCO, although such guarantee is subordinated to PRIDCO's obligation to provide additional funds for the payment of the Bonds. To date, the total principal amount of loans guaranteed by PRIDCO in connection with these special financial arrangements is approximately $50.7 million. PRIDCO has entered into these financial arrangements only with tenants that PRIDCO has considered strong credits. These special facilities are neither Trusteed Properties nor Eligible Properties.

The useful life of PRIDCO's buildings at the 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 Division, the industrial facilities are regularly inspected in order to assess their actual condition and determine whether repair and maintenance work is necessary. PRIDCO has full time facilities inspectors who carry out these tasks.

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

Table IV

Historical Construction of Industrial Facilities Completed for Fiscal Years Ended June 30,

Year	Square Feet
1998	276,696
1999	336,826
2000	144,698
2001	240,228
2002	133,693
Total	1,132,141

Table V

Projected Construction of Industrial Facilities to be Completed During Fiscal Years Ending June 30,

Year	Square Feet
2003	505,391
2004	562,951
2005	428,002
2006	446,876
2007	466,585
Total	2,409,805

In addition to the construction of industrial facilities, from time to time PRIDCO will also purchase industrial facilities for subsequent leasing to industrial tenants. For the five fiscal years ended June 30, 2002, PRIDCO purchased industrial facilities with 357,478 square feet of space.

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 zone. Lower rental rates apply to buildings located in less developed zones to encourage industrialization therein. Effective July 1, 2003 rental rates for general purpose buildings will range from $2.00 per square foot in the lowest rental rate zone to $6.00 per square foot in the highest rental rate zone. These rates are in effect for the first five years of the lease term, with an additional 25% average increase 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, the cost of construction and a 35% fee for administrative expenses, 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 present 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 rental rates per square foot as new leases are entered into with tenants occupying 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 industries in Puerto Rico lease facilities from PRIDCO. PRIDCO estimates that it owns approximately 88% 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 aggregate annual rental rate and the average rental rate per square foot with respect to new leases signed by PRIDCO's industrial tenants. The table does not include renewed leases with existing tenants. In such cases, rental rates were determined by the general PRIDCO rental schedule then in effect.

Table VI - New Industrial Leases

Fiscal Year Ended June 30,	Square Feet Rented	Annual Rent	Average Annual Rental Per Square Foot
1998	1,952,072	$5,276,065	$2.70
1999	2,734,670	$7,543,019	$2.76
2000	2,319,594	$6,762,594	$2.92
2001	2,298,191	$6,576,809	$2.86
2002	2,096,299	$7,510,249	$3.58

The following table contains a list of PRIDCO's 50 leading industrial lessees, many of which are affiliates of large, well-established United States and foreign companies. Some of the properties covered by these leases may not be Trusteed Properties or Eligible Properties. The products manufactured by these companies are primarily designed for markets outside Puerto Rico. No one single industrial lessee represents more than 6.5% of the total rental income derived by PRIDCO from its industrial leases, and no single industrial lease represents more than 5% of the total rental income derived by PRIDCO from its industrial leases.

Table VII - Fifty Leading Industrial Lessees
(as of March 31, 2003)

Rank	Company	Sum of Annual Rent	Sq. Feet	No. of Leases
1	Eaton Corporation	$3,050,492.28	772,665.01	22
2	Sara Lee Corp.	1,570,922.88	483,412.70	11
3	G.E. Power Systems	1,488,164.27	518,270.25	30
4	Symmetricom Inc.	1,128,117.80	181,409.96	3
5	United States Surgical Corp.	1,083,367.18	311,052.40	8
6	Nypro Inc.	1,071,000.24	215,829.72	8
7	Johnson & Johnson	984,377.88	372,609.53	22
8	Cardinal Health Inc.	893,222.94	242,949.36	17
9	Ingersoll-Rand Co.	848,334.84	310,641.89	16
10	Baxter International, Inc.	794,270.05	382,582.44	20
11	Edwards Lifesciences LLC	760,099.80	272,870.56	12
12	Solectron Corporation	720,215.76	246,990.11	5
13	MOVA Pharmaceutical Corp.*	654,443.40	46,757.21	4
14	Corning Cable Systems LLC	597,100.56	138,259.96	3
15	Ocular Science	574,217.28	145,371.26	2
16	Lausell, Inc.	499,987.08	136,704.14	8
17	Hamilton Sundstrand	496,097.52	183,477.68	9
18	B Braun Medical Systems, Inc.	470,940.96	179,780.14	7
19	Thomas & Betts Caribe, Inc.	455,329.80	116,556.12	8
20	Stanric Corporation	365,356.80	113,861.23	2
21	St. Jude Medical P.R., Inc.	339,885.60	71,650.98	4
22	Jostra Med Izintechnik AG	332,969.28	133,611.44	3
23	Essilor International	318,816.24	92,517.48	3
24	Lutron Electronics Co., Inc.	302,443.68	81,815.70	5
25	International Construction	298,064.64	91,598.50	1
26	Dooney and Bourke, Inc.	292,528.08	128,815.72	7
27	Avon Products, Inc.	278,986.32	101,449.57	1
28	Aljoma Lumber, Inc.	275,000.04	159,628.16	1
29	Storage Technology Corp.	267,397.80	85,545.20	5
30	Bodegas y Viñedos PeñaFlor	255,203.16	52,514.63	5
31	Stryker Spain Holding	231,602.40	111,887.84	6
32	Aramark	228,123.96	95,051.61	6
33	Intercall Telecommunication	227,976.36	22,451.25	2
34	Syratech Corporation	217,782.72	86,839.02	7
35	Manufacturing Tech. Serv., Inc.	216,634.92	50,451.37	2
36	Hewlet Packard Co.	214,762.56	67,808.91	2
37	Hubbell Incorporated	212,746.32	138,329.22	6
38	Microsoft Corporation	201,957.48	56,099.25	2
39	Northrop Grunman Elect., Inc.	201,498.84	73,272.21	6
40	J.G. Creations	199,936.31	66,645.44	4
41	Federal Express	196,757.65	39,351.53	1
42	Advanced Medical Optics, Inc.	192,781.32	74,636.59	3
43	Signal Transformer Co., Inc.	186,645.12	84,799.62	6
44	WIRTZ Manufacturing Co., Inc.	183,459.12	83,390.52	3
45	Las Flores Metalarte, Inc.	168,965.52	66,036.11	5
46	B.B. Bedding, Inc.	163,614.12	38,998.72	4
47	D.J. Manufacturing Corp.	159,099.84	93,532.88	5
48	Newell Office Products	152,902.44	101,964.93	5
49	Medtronic, Inc.	149,762.88	68,074.04	2
50	P.C.B. Horizon Technology	117,866.27	117,866.27	4
		$25,292,260.91	**7,908,626.83**	**333**

* This lease is with the Puerto Rico Industrial Investment Corporation, a subsidiary of PRIDCO.

PRIDCO, as part of its regular operations, has selectively offered some of its industrial buildings and land for sale. In 1996, PRIDCO implemented a new policy with respect to 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. As the following table shows, during the five fiscal years ended June 30, 2002, PRIDCO has received proceeds from such sales amounting to $63,875,000 and has realized total gains from such sales of approximately $45,854,000.

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

	Selling Price			Cost			Gain		
Fiscal Year	Land	Building	Total	Land	Building	Total	Land	Building	Total
1998	$4,107	$6,065	$10,172	$774	$1,925	$2,699	$3,333	$4,140	$7,473
1999	2,921	4,034	6,955	1,748	1,121	2,869	1,173	2,913	4,086
2000	9,880	10,871	20,751	761	4,253	5,014	9,119	6,618	15,737
2001	4,480	11,785	16,265	1,033	2,375	3,408	3,447	9,410	12,857
2002	4,402	5,330	9,732	3,235	796	4,031	1,167	4,534	5,701
Total	$25,790	$38,085	$63,875	$7,551	$10,470	$18,021	$18,239	$27,615	$45,854

*Includes Trusteed and Eligible Properties.

As the table below illustrates, PRIDCO's construction or acquisition of industrial buildings is above the pace of its sales of properties (measured both in square feet and investment).

Table IX - PRIDCO Sales and Construction Analysis of Industrial Buildings
Square Feet Sold v. Square Feet Constructed or Acquired
(dollars in thousands)

Fiscal Year	Square Feet Sold	Proceeds from Sales of Properties	Square Feet Constructed or Acquired	Investment
1998	179,804	$6,065	276,696	$13,224
1999	107,319	4,034	482,189	14,215
2000	504,749	10,871	323,763	9,529
2001	297,686	11,785	273,278	22,689
2002	125,670	5,330	133,693	18,428
Total	1,215,228	$38,085	1,489,619	$78,085

Industrial Parks

PRIDCO has over 197 industrial parks, of which 108 are medium and large sized parks with over four lots. 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 ("Zone No. 7") which is one of the three general purpose foreign trade zones in Puerto Rico. In 1999, Zone No. 7 was substantially expanded and became the largest non-contiguous foreign trade zone project in the United States. Industrial tenants in Zone No. 7, 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 Zone No. 7 are subject to duties. The zone currently includes 138 industrial parks containing 19.4 million square feet among 718 buildings in 78 municipalities. Two of those industrial parks are privately owned.

Corporations unable to operate within 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 corporations's operating facilities. Such sub-zones operate under a grant obtained by PRIDCO for 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 six sub-zones approved under Zone No. 7, all of which are active.

PRIDCO charges an annual fee to those companies that operate within its foreign trade zone. This fee is separate from regular lease agreement obligations. Current rates are $10,000 for users of the general purpose zone and $25,000 for users of a sub-zone. PRIDCO's current annual revenues from foreign trade zone fees are estimated at $180,000.

PRIDCO believes that the ability to offer foreign trade zone status is an additional incentive for tenants of its properties. It also enhances current efforts to make Puerto Rico a transshipment center for the Caribbean, Central and South America. PRIDCO expects that the number of foreign trade zone users will grow considerably in the next five years as value added operations are attracted to Puerto Rico in connection with the development of the Port of the Americas transshipment facility.

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 "PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY-Industrial Facilities" for a discussion of certain special financial arrangements entered into by PRIDCO and PRIICO to finance the construction of special industrial facilities and Appendix I "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE - Collection and Disposition of Revenues - Additional Funds To Be Made Available by PRIDCO (Sec. 405)."

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 from certain local municipal taxes.

On December 2, 1997, the Commonwealth enacted a new tax incentives law, Act No. 135 of December 2, 1997, known as the Tax Incentives Act of 1998 (the "1998 Act"). The tax incentive benefits provided by the 1998 Act are substantially more favorable than those provided by the previous tax incentives law. The activities eligible for tax incentives under the 1998 Act include manufacturing, certain designated services for export to markets outside of Puerto Rico, the production of energy from local renewable sources for consumption in Puerto Rico and laboratories for scientific and industrial research.

The benefits provided by the 1998 Act are available to new companies as well as companies currently conducting tax exempt operations in Puerto Rico that choose to renegotiate their existing tax exemption grant. For companies qualifying thereunder, the 1998 Act imposes income tax rates ranging from 2% to 7% for periods ranging from 10 to 25 years. In addition, it grants 90% exemption from property taxes, 100% exemption from municipal license taxes during the first three semesters of operations and between 80% and 60% thereafter, and 100% exemption from excise taxes with respect to raw materials and certain machinery and equipment used in the exempt activities. The 1998 Tax Incentives Act also provides various special deductions designed to stimulate employment and productivity, research and development and capital investment in Puerto Rico.

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

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; and (iii) to induce manufacturers to establish operations throughout the island with larger grants being offered in regions with higher unemployment. Incentives are granted taking into consideration the level of employment and the location of each project. The incentives cover various types of expenses such as infrastructure improvements, quality control programs and training of local personnel. Incentives granted to high tech, agro-industrial or strategically important projects are not dependent on the level of employment or the location of the project.

During fiscal year 2002, PRIDCO disbursed cash incentives totaling $18,644,522.88. Since 1998 and through June 30, 2002, PRIDCO has disbursed approximately $104,555,896. 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 rental payments on PRIDCO facilities, as well as to improve the infrastructure of certain PRIDCO buildings. During fiscal year 2003, it is estimated that PRIDCO will disburse an additional $20,000,000 under this program.

PRIDCO also administers the Special Fund for Economic Development which is funded from tax payments made by exempt businesses. 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") to provide financial assistance to business enterprises, facilitate the promotion of new employment and maintain existing employment. PRIIF entered into financial transactions with tax exempt businesses to generate funds that PRIIF would utilize to provide incentives. PRIIF incentives will cease in the near future as PRIIF no longer generates funds by engaging in transactions with exempt businesses.

Incentives Under the Code

United States corporations operating in Puerto Rico have been subject to special tax provisions since the Revenue Act of 1921. Prior to enactment of the Tax Reform Act of 1976, under Section 931 of the Code, United States corporations operating in Puerto Rico (and meeting certain source of income tests) were taxed only on income arising from sources within the United States.

The Tax Reform Act of 1976 created Section 936 of the Code, which revised the tax treatment of United States corporations operating in Puerto Rico by taxing such corporations on their worldwide income in a manner similar to that applicable to any other United States corporation but providing such corporations a full credit for the federal tax on their business and qualified investment income in Puerto Rico. The credit provided an effective 100% federal tax exemption for operating and qualifying investment income from Puerto Rico sources.

As a result of amendments to Section 936 made in 1996 (the "1996 Amendments") the tax credit is being phased out over a ten-year period for companies that were operating in Puerto Rico in 1995 and is no longer available for corporations that establish operations in Puerto Rico after October 13, 1995. The 1996 Amendments also eliminated the credit previously available for income derived from certain qualified investments in Puerto Rico.

Section 30A. The 1996 Amendments added Section 30A to the Code. Section 30A permits a "qualifying domestic corporation" ("QDC") that meets certain gross income tests 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"). The Section 30A Credit will not be available for taxable years commencing after 2005.

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.

The Section 936 credit is now only available to companies that were operating in Puerto Rico on October 13, 1995, and had elected the percentage of income credit provided by Section 936. Such percentage of income credit is equal to 40% of the federal income tax otherwise imposed on the Puerto Rico active business income or derived from the sale or exchange of substantially all assets used in such business.

In the case of taxable years beginning on or after 1998, the possession income subject to the Section 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 Section 936 credit is eliminated for taxable years commencing after 2005.

Controlled Foreign Corporations

Because of the credit limitations and impending phase out of Sections 30A and 936, a large number of corporations previously operating thereunder have reorganized their operations in Puerto Rico to become controlled foreign corporations ("CFCs"). A CFC is a corporation which is organized outside the United States and is controlled by United States shareholders. In general, a CFC may defer the payment of federal income taxes on its trade or business income until such income is repatriated to the United States in the form of dividends or through investments in certain United States properties. The Puerto Rico Office of Industrial Tax Exemption has received notification of over eighty corporations that have converted part or all of their operations to CFCs. These include many of the major pharmaceutical, instrument and electronics companies manufacturing in Puerto Rico.

Proposed New U.S. Tax Regime for Companies Doing Business in Puerto Rico - Section 956 of the Code

One of the elements of the Commonwealth's new economic development plan involves amending the Code to provide a new tax regime applicable to U.S.-based businesses that have operations in Puerto Rico or other U.S. possessions. The proposal would amend the Code as follows: (i) Sections 30A and 936 would be allowed to expire according to their terms; (ii) Section 956 would be amended to exclude from current U.S. tax 90% of the otherwise taxable investments in certain U.S. property made by a "Qualified CFC" out of its "Qualified Income"; (iii) as an alternative to the Section 956 exclusion, Section 245 would be amended to allow an 85% dividends received deduction with respect to dividends paid out of Qualified Income by the Qualified CFC; and (iv) the investment in U.S. properties by the Qualified CFC out of its Qualified Income will not be subject to the imputation of interest nor to treatment as a constructive dividend.

A "Qualified CFC" would be defined under the Code as a controlled foreign corporation which is created or organized under the laws of the Commonwealth or a possession of the United States. "Qualified Income" would be limited to that portion of the CFC's foreign source income derived from the active conduct by the CFC of a trade or business in Puerto Rico (or a possession of the United States) or from the sale or exchange of substantially all the assets used by the CFC in the active conduct of such trade or business. The proposed Section 956 exclusion would be applicable only to income that is eligible for deferral under general U.S. tax principles. Thus, for example, passive income received by the CFC could not be converted from income that is currently taxable under Subpart F of the Code into income eligible for deferral by the investment of such amounts in U.S. property pursuant to the proposed amendment to Section 956.

The legislative process for consideration of this proposal is in the early stages and, thus, it is not possible at this time to determine whether the proposal will be enacted into law or what amendments, if any, may be made to it. PRIDCO believes that regardless of whether the proposal is enacted or not, the final phase out of the incentives under Sections 30A and 936 of the Code will not adversely affect its financial conditions or its operations. The fact that many subsidiaries of U.S. corporations with significant operations in Puerto Rico have converted to CFC status and many are expanding their operations in Puerto Rico leads PRIDCO to believe that Puerto Rico will continue to attract new companies, especially in the areas of pharmaceuticals, electronics and medical equipment.

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 March 31, 2003, and as adjusted for the issuance of the Series 2003 Bonds and the defeasance of the Defeased Bonds. Giving effect to such adjustment, total debt is equal to 39.8% of total debt and capital accounts.

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

	March 31, 2003	As Adjusted*
Debt:[1]		
Bonds	$179,392	$315,391
GDB Line of Credit[2]	74,785	0
TOTAL	$254,177	$315,391
Contributed Capital and Retained Earnings:		
Contributed Capital [3]	$326,508	$326,508
Retained Earnings	151,479	151,479
TOTAL	$477,987	$477,987
Total Debt and Capital Accounts	$732,164	$793,378

*As adjusted to reflect the issuance of the Series 2003 Bonds and the defeasance of the Defeased Bonds.

[1]Does not include debt incurred by any subsidiaries of PRIDCO or guaranteed by PRIDCO. For a discussion of certain PRIICO debt guaranteed by PRIDCO see "PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY-Industrial Facilitites".

[2]The GDB line of credit will be paid with the proceeds of the Series 2003 Bonds. As of June 30, 2003 the amount owed under the line of credit was $78,366,315.49.

[3]Includes non-reimbursable government contributions from agencies of the United States and Puerto Rico.

Fixed Assets

As of March 31, 2003, the book value of the total assets of PRIDCO and its subsidiaries was $844,000,000 including $575,000,000 for property and equipment and $128,087,000 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 "ANNUAL AUDITED BASIC 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 "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE." The following table shows Principal and Interest Requirements for each fiscal year on account of the outstanding Bonds and the Series 2003 Bonds.

Table XI - Principal and Interest Requirements*

Fiscal Year ending June 30,	Outstanding Bonds[1]	Series 2003 Bonds: Maturity and Amortization Requirements	Series 2003 Bonds: Interest	Series 2003 Bonds: Principal and Interest Requirements	All Bonds
2004	$13,252,572	$2,880,000	$6,840,738	$9,720,738	$22,973,311
2005	10,810,330	7,500,000	7,359,378	14,859,378	25,669,708
2006	10,811,572	7,660,000	7,195,253	14,855,253	25,666,823
2007	11,688,384	7,875,000	6,986,782	14,861,782	25,661,948
2008	18,855,940	__	6,809,633	6,809,633	25,665,573
2009	18,855,940	__	6,809,633	6,809,633	25,665,573
2010	18,858,903	__	6,809,633	6,809,633	25,668,536
2011	18,859,828	__	6,809,633	6,809,633	25,669,461
2012	18,857,837	__	6,809,633	6,809,633	25,667,470
2013	18,863,037	__	6,809,633	6,809,633	25,672,670
2014	18,863,038	__	6,809,633	6,809,633	25,672,671
2015	18,854,105	__	6,809,633	6,809,633	25,663,738
2016	18,853,395	__	6,809,633	6,809,633	25,663,028
2017	4,389,233	4,017,979	9,741,654	13,759,633	18,148,866
2018	4,390,446	3,912,180	9,842,782	13,754,962	18,145,408
2019	4,391,447	7,160,000	6,594,836	13,754,836	18,146,283
2020	4,391,704	7,540,000	6,217,706	13,757,706	18,149,410
2021	4,390,045	7,940,000	5,820,425	13,760,425	18,150,470
2022		12,805,000	5,344,236	18,149,236	18,149,236
2023		13,480,000	4,669,665	18,149,665	18,149,665
2024		14,190,000	3,957,976	18,147,976	18,147,976
2025		14,940,000	3,203,025	18,143,025	18,143,025
2026		15,740,000	2,408,175	18,148,175	18,148,175
2027		16,580,000	1,570,931	18,150,931	18,150,931
2028		17,460,000	689,194	18,149,194	18,149,194

*Numbers may not add due to rounding.
[1]Excludes Principal and Interest Requirements for Defeased Bonds.

OPERATING RESULTS AND RATIOS

Historical

Trusteed 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 Trusteed Properties. See Appendix I "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE - Definitions of Certain Terms - Particular Covenants and Provisions - Additions to Trusteed Properties at PRIDCO's Option (Sec. 609(a))" and "Monthly Report of Gross Revenues of Trusteed Properties (Sec. 609(c))."

The following table shows historical gross revenues of the Trusteed 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, 2002.

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 Trusteed Properties. However, Eligible Properties may, and under certain circumstances must, be added to the Trusteed Properties. In addition, 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)

	1998	1999	2000	2001	2002
Rental Revenue Collected-Trusteed Properties	$44,445	$40,658	$41,727	$41,676	$40,859
Certain Proceeds from Sale of Properties[1]	8,889	6,955	8,345	8,335	8,172
Interest on Reserve Accounts	1,772	675	2,148	220	1,465
Total	$55,106	$48,288	$52,220	$50,231	$50,496
Rental Revenues Collected-Eligible Properties	3,397	5,945	5,320	7,048	9,004
Total	$58,503	$54,233	$57,540	$57,279	$59,500
Principal and Interest Requirements[2]	$16,809	$18,856	$18,858	$18,861	$18,856
Debt Coverage Ratio-Trusteed Properties	2.64	2.16	2.21	2.21	2.17
Debt Coverage Ratio-Trusteed and Eligible Properties	2.85	2.47	2.49	2.58	2.64
Debt Coverage Ratio-Trusteed Properties, Certain Proceeds from Sale of Properties and Interest on Reserve Account	3.28	2.56	2.77	2.66	2.68
Debt Coverage Ratio-Trusteed and Eligible Properties, Certain Proceeds from Sale of Properties and Interest on Reserve Account	3.48	2.88	3.05	3.04	3.16

[1]Does not include proceeds from sales of properties in excess of 20% of the sum of the contingent rentals and fixed base rentals received by PRIDCO from Trusteed Properties and the amount of any cash income received by PRIDCO from any mortgages or mortgage bonds in the Trusteed Properties as required by the additional bonds test of the Trust Indenture.
[2]Principal and Interest Requirements for each fiscal year. See "PRINCIPAL AND INTEREST REQUIREMENTS" herein.

During the period shown in the table above, rental revenue collected from Trusteed Properties decreased and rental revenue collected from Eligible Properties increased. Eligible Properties tend to include the higher-rent, more recently built facilities.

The following selected financial data for the two fiscal years ended June 30, 2001 and 2002 has been derived from the basic financial statements of PRIDCO, which statements have been audited by KPMG LLP, independent public accountants, and are attached hereto as Appendix II. The financial data for the three fiscal years in the period ended June 30, 2000 was 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 revenues 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. Furthermore, the information below is presented according to GASB 34, to facilitate the comparison although GASB 34 was not adopted by PRIDCO until the fiscal year ended June 30, 2002.

Table XIII - Historical Consolidated Statement of Operations
(dollars in thousands)

	Fiscal Year Ended June 30,					Nine Months ended March 31	
	1998	**1999**	**2000**	**2001**	**2002**	**2002**	**2003**
REVENUES:							
Rental Income from Trusteed and Eligible Properties	$51,599	$48,031	$43,133	$48,639	$47,474	$37,670	$37,694
Interest Income, Principally from Funds Held by Trustee	3,333	3,193	4,395	7,357	5,067	3,513	2,669
Net Gain on Sale of Property	7,473	4,086	15,737	12,857	5,701	374	5,352
Settlement of Interest Exchange Agreements*	20,565	13,623	115,660	16,776	--------	---------	--------
Legislative Appropriations	19,291	14,291	10,691	8,000	15,333	11,500	16,500
Income from Venture Capital Initiative Program	--------	--------	--------	--------	8,991	--------	--------
Other Revenues				205	185		614
Total Revenues	$102,261	$83,224	$189,616	$93,834	$82,751	$53,057	$62,829
EXPENSES:							
Salaries and Wages	$26,996	$22,086	$24,328	$24,690	$25,337	$22,838	$21,725
Administrative and General	19,016	18,370	25,397	31,186	21,532	14,691	15,458
Depreciation and Amortization	12,735	13,432	15,473	15,016	16,006	10,794	10,830
Maintenance and Repairs	3,781	2,850	57	7,830	1,336	282	2,328
Provisions for Environmental Matters	1,000	--------	1,370	150	270	750	750
Loss on Equity Securities	--------	--------	--------	10,450	--------	--------	--------
Loss on Impairment of Fixed Assets	--------	--------	--------	422	841	--------	--------
Industrial Incentives Granted by PRIIF	10,346	--------	18,482	23,736	6,058	5,951	5,111
Provisions for Early Retirement	20,146	--------	--------	--------	--------	--------	--------
Other Expenses	214	--------	--------	--------	--------	--------	--------
Subtotal Expenses	$94,234	$56,738	$85,107	$113,480	$71,380	$55,306	$56,202
Expenses Capitalized	(3,691)	(3,711)	(4,267)	(8,832)	(5,390)	(3,506)	(8,940)
Total Expenses	$90,543	$53,027	$80,840	$104,648	$65,990	$51,800	$47,262
FINANCE CHARGES:							
Interest Expense	$14,109	$14,559	$14,216	$13,363	$14,930	$10,657	$10,654
Amortization of Debt Issue Costs	1,037	1,534	1,447	1,383	882	828	156
Total Finance Charges	$15,146	$16,093	$15,663	$14,746	$15,812	$11,485	$10,810
TOTAL INCOME (LOSS) FROM OPERATIONS	($3,428)	$14,104	$93,113	($25,560)	$949	$(10,228)	$4,757
Contributions from U.S. Government Agencies	--------	--------	--------	569	2,227	--------	--------
Capital Contributions	--------	--------	--------	1,726	8,291	6,312	7,081
NET INCOME (LOSS)	$(3,428)	$14,104	$93,113	$(23,265)	$11,467	$(3,916)	$11,838

*This is revenue of the Puerto Rico Industrial Incentives Fund derived from the settlement of interest rate exchange agreements, the proceeds of which were used to provide financial incentives to companies. See "TAX AND OTHER INCENTIVES - Special Incentives Program."

Rental Income from Trusteed and Eligible Properties for the fiscal year ended June 30, 2002 decreased 8% compared to fiscal year ended June 30, 1998. This decrease is attributable to unfavorable economic conditions and the fact that PRIDCO did not raise its rental rates during that period or significantly increased its inventory of industrial properties.

Gain on sales of properties during fiscal year 2002 amounted to $5,701,000, which was lower than such gains in fiscal years 2001 and 2000. Proceeds from such sales are generally invested in construction or acquisition of income producing properties.

Salaries and wages decreased $1,659,000, or 6%, during the period from fiscal year 1998 to fiscal year 2002 due to an early retirement plan offered by PRIDCO. During this same period, administrative and general expenses increased $2,516,000, or 13%, due to certain professional services contracts entered into after fiscal year 1998 while maintenance and repairs expense decreased $2,445,000, or 65%. The decrease in fiscal year 2002 in the provision for environmental matters of $730,000, or 73%, in comparison to fiscal year 1998 is due to a reduction of estimated losses.

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, 2002. 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	Delinquency	Collection Ratio
1998	21,258,852	$54,099	$47,842	($6,257)	88.4%
1999	21,153,582	$51,649	$46,603	($5,046)	90.2%
2000	20,983,809	$53,279	$47,047	($6,232)	88.3%
2001	21,531,413	$54,229	$48,724	($5,505)	89.8%
2002	20,732,305	$53,067	$49,863	($3,204)	94.0%

PRIDCO has a collection and eviction program that includes close monitoring of delinquent accounts and aggressive collection efforts. Clients that are late in making their payments receive phone calls, reminder letters, warning letters and periodical visits. After two warning letters without acknowledgment from the tenant, the client is sued for eviction and collection of monies.

Projected Receipts and Disbursements

The following table presents on a cash basis PRIDCO's estimates of future operating results and 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 interrelationship 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, the implementation of a new rental rate schedule; actual demand for industrial space as a direct result of the promotional efforts of PRIDCO resulting in the leasing each year during the forecast period of an additional 400,000 square feet of rental space from existing inventories; construction by PRIDCO of new facilities and expansion of existing facilities resulting in 2,409,805 square feet of additional rental space during the forecast period; a 90% renewal rate for expiring leases;

and yearly increases in average annual rental rates as existing leases terminate and are replaced by new leases at higher rental rates recently approved by PRIDCO. 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 "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE - 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)

	2003	2004	2005	2006	2007
Beginning Cash	$21,036	$39,319	$56,930	$28,702	$26,383
Operating Receipts:					
Gross Cash Available for Debt Services from:					
Trusteed and Eligible Properties	$50,261	$52,054	$56,715	$60,373	$64,303
Proceeds from Sale of Property	10,000	10,000	10,000	10,000	10,000
Financing Leases	2,000	5,068	6,393	6,954	7,247
Total	$62,261	$67,122	$73,108	$77,327	$81,550
Interest on Reserve Account	$1,389	$1,277	$1,485	$1,559	$1,637
Government Contributions	27,333	17,333	18,250	18,500	19,000
Other Income	7,000	7,000	7,000	7,000	7,000
Total	$35,722	$25,610	$26,735	$27,059	$27,637
Proceeds of Bonds	----------	$155,956	---------	---------	--------
Line of Credit	15,086	---------	---------	25,789	26,992
Bank Financings - Special Projects	39,923	14,941	11,620	12,132	12,667
Total	$55,009	$170,897	$11,620	$37,921	$39,659
Operating and Other Disbursements:	($56,838)	($59,848)	($61,701)	($62,948)	($64,757)
NET RECEIPTS	$117,190	$243,100	$106,692	$108,061	$110,472
Repayment of Interim Capital Improvement Notes	----------	(78,693)	----------	($540)	($1,668)
Refunding of 1991 Series Bonds	----------	(25,596)	-----------	----------	-----------
Bonds Principal and Interest Requirements	(18,862)	(22,973)	(25,670)	(25,667)	(25,662)
Total	($18,862)	($127,262)	($25,670)	($26,207)	($27,330)
Available Cash	$98,328	$115,838	$81,022	$81,854	$83,143
Cash Used for Capital Expenditures	(57,009)	(53,840)	(45,927)	(48,517)	(50,656)
Principal and Interest - Private Financing	(2,000)	(5,068)	(6,393)	(6,954)	(7,247)
Ending Cash	$39,319	$56,930	$28,702	$26,383	$25,241

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

	2003	2004	2005	2006	2007
Rental Revenue Collected-Trusteed Properties	$38,944	$40,738	$43,585	$47,368	$50,482
Certain Proceeds from Sale of Properties[1]	7,789	8,148	8,717	9,474	10,000
Interest on Reserve Accounts	1,389	1,277	1,485	1,559	1,637
Total	$48,122	$50,163	$53,787	$58,401	$62,119
Rental Revenues Collected-Eligible Properties	11,317	11,316	13,130	13,005	13,821
Total	$59,439	$61,479	$66,917	$71,406	$75,940
Principal and Interest Requirements[2]	$18,862	$22,973	$25,670	$25,667	$25,662
Debt Coverage Ratio-Trusteed Properties	2.06	1.77	1.70	1.85	1.97
Debt Coverage Ratio-Trusteed and Eligible Properties	2.66	2.27	2.21	2.35	2.51
Debt Coverage Ratio-Trusteed Properties, Certain Proceeds from Sale of Properties and Interest on Reserve Account	2.55	2.18	2.10	2.28	2.42
Debt Coverage Ratio-Trusteed and Eligible Properties, Certain Proceeds from Sale of Properties and Interest on Reserve Account	3.15	2.68	2.61	2.78	2.96

[1]Does not include proceeds from sales of properties in excess of 20% of the sum of the contingent rentals and fixed base rentals received by PRIDCO from Trusteed Properties and the amount of any cash income received by PRIDCO from any mortgages or mortgage bonds in the Trusteed Properties.
[2]Principal Interest Requirements for each fiscal year. See “PRINCIPAL AND INTEREST REQUIREMENTS” herein.

CAPITAL IMPROVEMENTS PROGRAM

Historical

During fiscal years 1998 through 2002, all of PRIDCO's capital expenditures 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, approximately 1,489,619 square feet of industrial space were added. Of the capital improvements program, approximately 36% was financed with internally generated funds, 34% with short term borrowings, 15% with long term debt, 8% from insured claims, 5% from private sector financings, and 2% from government contributions.

The following table summarizes the capital expenditures of PRIDCO and the sources of funds for such expenditures for the five fiscal years ended June 30, 2002.

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

	1998	1999	2000	2001	2002	Total
Capital Improvements:						
Industrial Buildings Construction	$13,224	$14,215	$9,529	$22,689	$18,428	$78,085
Industrial Land Development	3,640	1,593	1,492	9,026	1,298	17,049
Land Acquisition	443	7,310	2,230	6,240	450	16,673
Property Improvements and Other	12,995	6,552	8,708	6,788	4,185	39,228
Repairs Hurricane Georges Damages	--------	13,500	--------	--------	-------	13,500
Total	$30,302	$43,170	$21,959	$44,743	$24,361	$164,535
Sources:						
Line of Credit	$ -------	$ ------	$ -------	$43,017	$12,203	$55,220
Internally Generated Funds	5,302	29,670	21,959	-------	1,817	58,748
Government Contributions-Federal	-------	------	------	1,726	2,227	3,953
Bond Proceeds	25,000	------	------	-------	-------	25,000
Loans from Private Banking Sector	-------	------	------	-------	8,114	8,114
Proceeds from Insurance Claims	-------	13,500	------	-------	-------	13,500
Total	$30,302	$43,170	$21,959	$44,743	$24,361	$164,535

Projected

The following table presents PRIDCO's projected capital improvements program for fiscal years 2003 through 2007. It is anticipated that PRIDCO will finance its capital expenditure needs through a combination of borrowings and internally generated funds. 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 ended June 30)
(dollars in thousands)

	2003	2004	2005	2006	2007	Total
Capital Improvements:						
Industrial Buildings Construction	$29,787	$40,435	$31,930	$33,903	$35,400	$171,455
Industrial Land Development	2,570	2,684	2,802	2,926	3,054	14,036
Land Acquisition	15,152	802	837	875	913	18,579
Property Improvements and Other	9,500	9,919	10,358	10,813	11,289	51,879
Total	$57,009	$53,840	$45,927	$48,517	$50,656	$255,949
Sources:						
Line of Credit	$15,086	-------	-------	$25,789	$26,992	$67,867
Internally Generated Funds	------	9,225	8,314	8,596	8,997	35,132
Government Contributions-Federal	2,000	2,000	2,000	2,000	2,000	10,000
Bonds Proceeds	------	27,674	23,993	-------	-------	51,667
Loans from Private Banking Sector	39,923	14,941	11,620	12,132	12,667	91,283
Total	$57,009	$53,840	$45,927	$48,517	$50,656	$255,949

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, as amended ("CERCLA"), was enacted by Congress to address problems resulting from releases of hazardous substances into 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 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 greater 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, but as to which the company formerly known as Caribe General Electric Products, Inc. assumed responsibility for remediation pursuant to an administrative order on consent with EPA. PRIDCO did not contribute financially to the cost of the cleanup activities at the site.

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 consists primarily of performing owner-related tasks to assist the industrial PRPs in their conduct of the remedial work, such as affording access to property owned by PRIDCO and to providing in-kind support to the industrial PRP's implementation of the clean-up programs.

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., UNISYS Corporation, Harman Automotive Puerto Rico, Inc., Motorola Telcarro de Puerto Rico, Inc., Teledyne Packaging, PR, Inc., and The West Company of Puerto Rico, Inc.

On September 23, 2002, Export, Unisys and PRIDCO entered into a Settlement Agreement and Release (the "Agreement"), which provided that Export would be granted economic incentives pursuant to a Special Incentives by Importance of Project Contract and the industrial PRPs committed to continue implementing all remedial activities and to defend, hold harmless and indemnify PRIDCO with respect to claims by the government and third parties. Included in the protection provided to PRIDCO in the Agreement by and between Unisys and Export, the performance of whose obligations is guaranteed by General Electric Company, is indemnification of claims against PRIDCO by the federal government, including EPA, both for remedial activities and for all past and future oversight and administrative costs.

The total costs which the Vega Alta Steering Committee estimates have been, are being and will be needed to address conditions at the site, including, but not limited to, investigation and government oversight reimbursement expenses, may reach $30,000,000. PRIDCO has not obtained a covenant not to sue from EPA. The economic incentives granted under the Special Incentives by Importance of Project Contract were intended to represent PRIDCO's commitment to the work of GEA Caribbean Export LLC in Puerto Rico, including the Vega Alta site, and in exchange for that commitment, the industrial PRPs would continue to address the Vega Alta site without contribution from PRIDCO.

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 comprise 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 has estimated that groundwater remediation costs includes $1,291,684 in capital construction and $270,868 per year for operation and maintenance (representing a 30-year present worth of $5,455,591 and $1,231,000 for the remediation of soil disposal area). There is no agreement between PRIDCO and the performing PRPs with respect to future response costs. PRIDCO has not obtained a covenant not to sue from EPA.

Caribe General Electric - Juana Díaz Site. - In 1999, PRIDCO and General Electric Company ("GE") negotiated an agreement for site access, and GE developed the scope of work for a series of trenches and investigations to be done. This involved focusing on stormwater flow pathways which might have carried contaminants into the parking lot area to the south of the plant, and trenches in the areas between the GE site and the PRIDCO site, where GE's prior work showed the presence of contaminants (and apparently some buried resistors or debris), near the perimeter between the two sites, in order to ascertain whether the contaminants extended into the PRIDCO side of the site. PRIDCO has subsequently learned that the site work was completed on the GE property and that the agreed upon investigations were performed at the PRIDCO site.

Environmental Remediation

PRIDCO may be required to conduct 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 operations and financial condition.

<u>Property Formerly Leased by Metal Finishing Corporation in Toa Baja.</u> In 1993, it was discovered that Metal Finishing Corporation, which leased property from PRIDCO in Toa Baja, had abandoned property and left behind wastes which, when sampled, were determined to be hazardous. PRIDCO removed such hazardous wastes from the property, and has recently been conducting investigative activities at the property pursuant to a Statement of Work, which was reviewed and commented upon by EPA. An important goal of the investigative program is for EPA, in cooperation with PRIDCO, to determine whether removal or remedial measures are necessary before the property can be returned to industrial or commercial uses. To the extent that additional remediation and/or removal work is needed, it will most likely be performed by PRIDCO because it is PRIDCO's understanding that Metal Finishing Corporation ("MFC") no longer exists and that its principals cannot be located and/or have no significant assets.

The recent assessment of the MFC site by a PRIDCO consultant was intended to fill data gaps remaining after prior investigations and removal actions at the site. The assessment included the collection of on-site soil and groundwater data and the performance of certain hydrological tests and measurements. The fieldwork has been completed, and a draft report is currently being prepared. PRIDCO expects that its current field investigations will confirm its belief that the site does not pose a significant threat to human health or the environment and that no significant environmental remediation is necessary, therefore, allowing it to be returned to productive use.

Property Owned by Pan American Grain Company, Inc. in Guaynabo. In 1996, PRIDCO sold property in Guaynabo, formerly leased by PRIDCO to B&B Wood Treating & Processing Co., Inc., to Pan American Grain Company, Inc. ("PAG"). Subsequent to the sale, PAG claimed the property had been contaminated as the result of prior operations, and PRIDCO agreed to implement investigative and remedial activities and in fact completed such measures. PRIDCO has completed said activities and believes it has addressed PAG's concerns.

Property Leased by Avon Mirabella, Inc. in Aguadilla. As the result of electroplating operations formerly conducted by Avon Mirabella, Inc. ("Avon") on property leased from PRIDCO in Aguadilla, hazardous wastes contaminated the concrete floor and surrounding trench system, and are also present in soils. During the winter of 2002, Avon performed removal and renovation of the contaminated concrete floor. Due to the fact that Avon has been unwilling to address impacted soils and because PRIDCO remains concerned about potential responsibility for cleanup of that medium, Avon and PRIDCO have been negotiating the terms of an indemnity that Avon would provide to PRIDCO relative to residual contamination at the property.

Property Formerly Leased by Glamourette/OG, Inc. in Quebradillas. Glamourette/OG, Inc. is currently involved in a bankruptcy proceeding. The Chapter 7 Bankruptcy Trustee inspected the property in December, 2002, and on January 7, 2003, he reported to EPA his discovery of, among other things, storage areas containing chemicals, a half-filled 20,000 gallon tank presumed to contain petroleum, an oil-filled 75 KV transformer, and oxygen and acetylene tanks. EQB has recently notified PRIDCO of alleged violations at the property and of the need for the development of a remedial plan to address environmental conditions. A response to the EQB notice has not yet been submitted. This matter is in an early stage and PRIDCO can not yet anticipate what work needs to be done and by whom.

Property Formerly Leased by Dye-Tex in Santa Isabel. Dye-Tex is currently involved in a proceeding under Chapter 7 of the U.S. Bankruptcy Code. During a visit to the property on May 3, 2002, a PRIDCO representative observed, among other things, open containers of chemicals, including acids, and tanks with what appeared to be oil seepage. PRIDCO has solicited quotations for the removal, transportation and disposal of hazardous and non-hazardous materials at the property. To date no environmental investigation has been done and PRIDCO can not identify any potential significant impacts to the environment.

Property Formerly Leased by Kayser-Roth in Arecibo. Kayser-Roth recently conducted some environmental activities at its facility, including the demolition of a wall in the Air Washer Room that was impregnated with mineral oil and exctracting residual mineral oil from ceiling pipelines in the Lonati room and then sealing the pipelines. The only additional remedial work which remains to be performed by Kayser-Roth is the removal of asbestos-containing materials from the property. It is anticipated that work will be performed shortly; the asbestos removal contractor will be filing the necessary permit applications with EQB in June or July of 2003. Kayser-Roth has not requested that PRIDCO pay any portion of the cost of the environmental remedial activities that it has undertaken.

Property Formerly Leased by Besst Chemical, Inc. in Bayamón. Besst Chemical, Inc. produced chemicals for water treatment plants and detergents. As the result of a fire in the building on March 12, 2001, chemicals in plastic drums were released. PRIDCO cleaned up the property under EQB supervision. Post-remediation sampling results are currently being evaluated by PRIDCO's consultant.

Properties Formerly Leased by Hato Rey Electroplating in Hato Rey, National Circuits in Fajardo and Sublistática in Isabela. These three properties will soon be investigated by PRIDCO using monies awarded to it by EPA under a Brownsfield Demonstration Grant in 1997. PRIDCO has been applying, and will continue to apply, resources of its own during the pilot project beyond the $200,000 amount of the grant. It is not yet known how much any cleanup activities, which may potentially be required at one or more of the properties, will cost.

Thermo King de Puerto Rico, Inc. in Arecibo. By means of a letter dated April 9, 2002, Thermo King de Puerto Rico, Inc. ("Thermo King") committed to participate in EPA's Facility Lead Program in order to achieve corrective action goals at its leased property. A primary focus of the Facility Lead Program involving Thermo King is the implementation by Thermo King, under EPA oversight and control, of interim measures aimed at controlling the migration of any groundwater contamination at or from the facility by releases of hazardous constituents. The work to be undertaken by Thermo King has not yet begun. PRIDCO's role to date has been secondary since Thermo King has been addressing the contamination.

Combe Property in Naguabo. Groundwater monitoring wells at property leased by Combe in the Naguabo Industrial Park contain volatile organic compound above drinking water levels. PRIDCO intends to conduct an investigation program within the industrial park in an effort to determine the source of the contamination. Once the source of the contamination is found, PRIDCO plans to seek to have remedial work performed by the responsible entity.

Quality Electroplating Corporation in Caguas. As a result of concerns on the part of EPA, Quality Electroplating Corporation ("QEC"), has developed a work plan to assess soil and groundwater conditions at the property. Both PRIDCO and EPA have provided comments to QEC on its work plan, and currently EPA and QEC are trying to resolve the terms of an administrative order on consent which would dictate the investigative work. It is not yet known whether any form of remediation will be required at the property.

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 the results of PRIDCO's operations and financial condition.

TAXATION

In the opinion of Pietrantoni Méndez & Alvarez LLP, Bond Counsel, based on the laws of the Commonwealth now in force:

1. Interest on the Series 2003 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 Series 2003 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 Series 2003 Bonds (i) by gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of the Commonwealth at the time the gift is made and (ii) by death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (x) a resident of Puerto Rico and (y) 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 Series 2003 Bonds may be subject to income tax under the P.R. Code to taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of the Commonwealth.

The P.R. Code does not provide rules with respect to the treatment of the excess, if any, of the amount due at maturity of a Series 2003 Bond over its initial offering price (the "Accretion Amount"). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, the Accretion Amount is treated as interest.

Prospective owners of the Series 2003 Bonds, including but not limited to financial institutions, should be aware that ownership of the Series 2003 Bonds may result in having a portion of their interest and other expenses attributable to interest on the Series 2003 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. Interest on the Series 2003 Bonds received by, or "original issue discount" (within the meaning of the Code) accrued to an individual who is a bona fide resident of Puerto Rico during the entire taxable year in which such interest is received or "original issue discount" is accrued, 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 Series 2003 Bonds received by, or "original issue discount" (within the meaning of the Code) accrued to, a corporation (i) organized under the laws of the Commonwealth or (ii) otherwise constituting a foreign corporation under the Code, is not subject to income taxation under the Code provided such interest or original issue discount is not effectively connected, or treated as effectively connected, with or attributable to the conduct of a trade or business within the United States by such corporation.

3. Interest on the Series 2003 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 on its worldwide income will generally be subject to federal income tax on any gain realized upon the sale or exchange of the Series 2003 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 2003 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 Series 2003 Bonds do not constitute inventory in the hands of such individual.

5. The transfer of the Series 2003 Bonds by death or gift will not be subject to estate or gift tax under the Code in the case of decedents or donors who, at the time of death or gift, are (i) residents of Puerto Rico and (ii) (x) United States citizens that acquired such citizenship solely by reason of birth or residence in Puerto Rico or (y) not United States citizens.

Prospective owners of the Series 2003 Bonds should also be aware that the Code provides special rules for the taxation of shareholders of foreign corporations that qualify as "controlled foreign corporation," "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 of, receipt or accrual of interest on, or disposition of the Series 2003 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 Causey Demgen & Moore Inc., CPAs and Consultants, Suite 4650, 1801 California Street, Denver, Colorado 80202-2681.

UNDERWRITING

The underwriters listed on the cover page (the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the Series 2003 Bonds from PRIDCO at an aggregate discount of $1,584,490.49 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 Series 2003 Bonds if any such bonds are purchased. The Series 2003 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.

LEGAL INVESTMENT

The Series 2003 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 Pietrantoni Méndez & Alvarez LLP, San Juan, Puerto Rico, Bond Counsel, are set forth in Appendix III to this Official Statement. Certain legal matters will be passed upon for the Underwriters by O'Neill & Borges, 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 2003 Bonds offered hereby. As financial advisor and fiscal agent, GDB participated in the selection of the Underwriters of the Series 2003 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 2003 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. The rating by S&P is a downgrade from the rating of BBB+ which had been previously in effect for PRIDCO.

There is no assurance that the ratings given to the Series 2003 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 Series 2003 Bonds.

The ratings given to the Series 2003 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 Series 2003 Bonds.

Moody's and S&P were provided with materials relating to PRIDCO, the Series 2003 Bonds and other relevant information, and no application has been made to any other rating agency for purposes of obtaining a rating on the Series 2003 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:

1. PRIDCO has agreed to file within 305 days after the end of each fiscal year beginning after its fiscal year 2003, 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 2003 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 2003 Bonds;
g. modifications to rights of the holders (including Beneficial Owners) of the Series 2003 Bonds;
h. bond calls;
i. defeasances;
j. release, substitution, or sale of property securing repayment of the Series 2003 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 2003 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 2003 Bonds, unless PRIDCO applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the Series 2003 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 of the Series 2003 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 2003 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 of Series 2003 Bond purchases.

PRIDCO entered into similar continuing disclosure agreements in connection with the issuance of its General Purpose Revenue Bonds, Series 1997 A and Refunding Revenue Bonds, Series 1997 A. Due to a delay in the audit and publication of PRIDCO's audited financial statements for the fiscal year ended June 30, 2002 by reason of the adoption of Governmental Accounting Standards Board Statement No. 34, PRIDCO did not file on time the required financial information for the fiscal year ended June 30, 2002.

As of the date of this Official Statement, there is no Commonwealth SID, and the NRMSIRs are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45th floor, New York, New York 10041; FT Interactive Data, Attn. NRMSIR, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

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 2003 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 2003 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 Proceeding 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 2003 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.

The Covenants may only be amended if:

1. The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in identity, nature, or status of PRIDCO, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Series 2003 Bonds, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interests of bondholders or Beneficial Owners, as determined by parties unaffiliated with PRIDCO; or

2. All or any part of the Rule, as interpreted by the staff of the SEC as of the date of the adoption of the resolution authorizing the issuance of the Series 2003 Bonds, ceases to be in effect for any reason, and PRIDCO elects that the Covenants shall be deemed amended accordingly.

PRIDCO has further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

These Covenants have been made in order to assist the Underwriters in complying with the Rule.

MISCELLANEOUS

The foregoing references to and summaries of certain provisions of the Trust Indenture, the various acts and the Series 2003 Bonds are made subject to all of the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all such provisions.

The Trustee is U.S. Bank Trust National Association which has its corporate trust office at 100 Wall Street, Suite 1600, New York, New York; telephone: (800) 934-6802

Appended to, and constituting a part of, this Official Statement are (i) summaries of certain provisions of the Trust Indenture, (ii) the audited financial statements of PRIDCO for the years ended June 30, 2002 and June 30, 2001, together with the report of KPMG LLP thereon, (iii) the proposed forms of opinions of Pietrantoni Méndez & Alvarez LLP, Bond Counsel, and (iv) a table containing the Accreted Values of the Capital Appreciation Bonds.

The financial statements as of June 30, 2002 and 2001 and for the two year period ended June 30, 2002 included in this Official Statement, have been audited by KPMG LLP (independent public accountants), San Juan, Puerto Rico, as stated in their report appearing herein. KPMG LLP has neither examined nor compiled the projected financial information incorporated herein and accordingly does not express an opinion or any other form of assurance with respect thereto.

The information set forth in this Official Statement, except the information appearing in the Appendices, was supplied by certain officials of PRIDCO in their official capacities and, as such, is included in this Official Statement on their authority.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement will be filed with each NRMSIR and the MSRB.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

By: /s/ Milton Segarra
Executive Director

APPENDIX I

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

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 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 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 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.

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 Executive Director 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, 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 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., 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 credit of the Bond Service Account equal to the total of (i) the interest which will become payable during such six (6) months’ period or within thirty (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 and Redemption Account income 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 any payments 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). Moneys held for the credit of the Redemption Account shall be applied to the retirement of bonds issued under the provisions of this Trust Indenture as follows:

a) Subject to the provisions of paragraph (c) below, the Trustee shall endeavor to purchase Bonds, secured hereby and then outstanding, 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 by the Trustee 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.

b) Subject to the provisions of Article III of the Trust Indenture and paragraph (c) below, 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 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 (a) 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. Not less than thirty (30) days before the redemption date the Trustee shall withdraw from the Bond Service Account and from the Redemption Account and set aside in separate accounts or deposit with the Paying Agents the respective amounts required for paying the interest on, and the principal and redemption premium of, the bonds called for redemption. All expenses in connection with such redemption shall be paid by PRIDCO from its own funds.

c) 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 of the Trust Indenture 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 of the Trust Indenture 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 of the Trust Indenture, 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.

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, including amounts available under any Reserve Account Insurance Policy or Reserve Account Letter of Credit, shall exceed the maximum requirement of the Reserve Account under the provisions of clause (c) of Section 402 of the Trust Indenture, such excess shall be applied by the Trustee 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, remaining shall be paid to PRIDCO upon its request or any Reserve Account Insurance Policy or Reserve Account Letter of Credit may be reduced to the extent of such excess, at PRIDCO's option. PRIDCO may use such balance for any proper corporate purpose.

Notwithstanding anything to the contrary contained in Section 402 or elsewhere in the Trust Indenture, 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 Section 603 and 609(b) 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 released and immediately paid over to PRIDCO to be used by PRIDCO for any of its proper corporate purposes. 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 (Sec. 209). Additional Bonds secured by the Trust Indenture may be issued under Section 209 for any proper corporate purpose of PRIDCO, provided that the conditions set forth below, among others, are met.

1. PRIDCO shall adopt a resolution authorizing the issuance of such additional Bonds, and fixing the amounts and details thereof. The bonds of each Series issued under the provisions of this Section shall be designated "General Purpose Revenue Bonds, Series _____", shall be dated, shall be stated to mature on January 1 or July 1 as to term bonds or on July 1 as to serial bonds maturing in annual installments and on January 1 and July 1 as to serial bonds maturing in semi-annual installments, at such time or times, not later than twenty-five (25) years from their date, and may be made redeemable at such times and prices (subject to the provisions of Article III of the Trust Indenture), all as may be provided by the resolution authorizing the issuance of such bonds. Such resolution shall also fix the Amortization Requirements for any term bonds of such Series.

2. Prior to the issuance of Variable Rate Bonds, PRIDCO shall adopt a resolution specifying, without limitation, the interest calculation method, any conversion features and any credit or liquidity facility which may be drawn upon to make principal and interest payments on the Variable Rate Bonds. PRIDCO shall also designate by resolution prior to the issuance of such Variable Rate Bonds the particular form or forms, if any, of any demand provision, the period or periods for payment of principal and interest after delivery of notice, the appointment of an agent for the Company, the terms and provisions for the remarketing or replacement agreement, and the terms and provisions of the credit or liquidity facility, including the terms of any lien on revenues or property of PRIDCO.

3. Prior to the issuance of Put Bonds, PRIDCO shall adopt a resolution, which may include the terms and provisions of Section 2 above.

4. Prior to the issuance of Extendible Maturity Bonds, PRIDCO shall adopt a resolution which shall set forth the terms and conditions of the exercise by the bondholders of any option to extend the maturity of said bonds.

5. Prior to the issuance of Capital Appreciation Bonds, the Board shall specify by resolution the Valuation Dates, the Accreted Value on such dates, and the manner and period during which principal and interest shall be deemed to accrue.

Such bonds shall be executed substantially in the form and manner set forth in the Trust Indenture. The bonds shall be delivered to the Trustee for authentication, and such bonds shall be authenticated and delivered by the Trustee upon filing with it of the following, among others:

1. A certified copy of the above mentioned resolutions;

2. A certificate, signed by the Executive Director 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, setting forth:

i) the lesser of the amount of one-third (1/3) 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 interest received by PRIDCO in cash 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 prior to the date such certificate is signed, 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 twenty percent (20%) of the sum of the amounts shown in items (i), (ii) and (iii)) of all the proceeds received by PRIDCO in the twelve (12) months immediately preceding the month in which the Certificate is signed (A) from the sale or other disposition of Trusteed Properties in accordance with Section 608 of 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 (12) 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 (3) 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. A certificate stating 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.

4. 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.

Refunding Bonds (Sec. 210). 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 or any part 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.

Before any bonds shall be issued under this section, the conditions specified in Section 209 of the Trust Indenture (discussed above) must be met.

The Trustee shall not authenticate and deliver such bonds unless:

1. the proceeds (excluding accrued interest but including any premium) of such refunding bonds plus any moneys to be withdrawn from the Sinking Fund by the Trustee and any other moneys which have been made available to the Trustee for such purpose as hereinafter provided, or the principal of and the interest on the investment of such proceeds or any such moneys, shall be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the bonds to be refunded and the interest which will accrue thereon to the redemption date or maturity dates occurring prior thereto, and

2. in case such bonds are to be issued for the purpose of refunding all or any part of the outstanding bonds of any Series or outstanding Designated Maturity Bonds at or prior to their stated maturity or maturities pursuant to the second paragraph of Section 210 of the Trust Indenture, the maximum amount of the Principal and Interest Requirements for any fiscal year thereafter on account of all bonds to be outstanding after the issuance of such refunding bonds and the redemption of the bonds to be refunded, shall be less than the maximum amount of the Principal and Interest Requirements for any fiscal year thereafter on account of all the bonds outstanding prior to the issuance of such refunding bonds and the redemption of the bonds to be refunded.

Simultaneously with the delivery of such refunding bonds the Trustee shall withdraw from the Sinking Fund an amount sufficient, together with any excess of the proceeds (excluding accrued interest but including any premium) of such refunding bonds over the amount required for paying the principal of and the redemption premium, if any, on the bonds to be refunded, to pay the interest on the bonds to be refunded which will become payable on or prior to their maturity or the date of their redemption.

Particular Covenants and Provisions

No Prior Lien or Charge upon Trusteed Properties or Gross Revenue (Sec. 603). PRIDCO covenants that it will not create or suffer to be created any lien or charge (other than the lien or charge of the Trust Indenture) upon the Trusteed Properties or any part thereof or upon the gross revenues of the Trusteed Properties and that it will pay or cause to be discharged, or will make adequate provisions to satisfy and discharge, within sixty (60) days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon such Trusteed Properties or upon such gross revenues.

Nothing contained in the previous paragraph shall require PRIDCO to pay or cause to be discharged, or provide for, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

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. Except as hereinafter provided in Section 604 of the Trust Indenture, the proceeds of all other insurance shall be deposited with the Trustee in a special account to be applied to the repair, replacement or reconstruction of the damaged or destroyed property and shall be disbursed by the Trustee upon requisitions signed by the Executive Director and by the Controller of the Company specifying the payee and the amount and purpose of each payment. If such proceeds are more than sufficient for such purposes the balance thereof remaining shall be applied in the same manner as the gross revenues of the Trusteed Properties under said Section 402. If such proceeds shall be insufficient for such purpose, PRIDCO shall supply the deficiency from its own funds. At PRIDCO’s option the proceeds of such insurance (other than use and occupancy insurance) may be:

(a) deposited to the credit of the Redemption Account, or

(b) used by PRIDCO for the acquisition or construction of (i) any real property 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 will derive revenues, and (iii) any first mortgages on real property or any first mortgage bonds; any such properties so acquired or constructed will constitute a part of the Trusteed Properties.

All insurance policies shall be open to the inspection of the Trustee and the bondholders and their representatives at all reasonable times.

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.

PRIDCO further covenants that it will cause any additional reports or audits relating to its properties to be made as required by law, and that if will furnish to the Trustee and the holders of any bonds issued hereunder such other information concerning the Trusteed Properties or their operation as they may reasonably request.

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 Executive Director 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 under the Trust Indenture 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 of the Trust Indenture; 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 with the Trustee 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 Executive Director 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 covenants that any amounts which it receives on account of the payment of principal of any mortgages or mortgage bonds included in the Trusteed Properties, other than from the sale thereof, will be deposited with the Trustee 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 payment is received will be at least equal to one hundred twenty-five per centum (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.

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 issued and to be issued under the provisions of the Trust Indenture.

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 payment is received 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 signed by the Executive Director describing such property and certifying to its qualifications under Section 609 of the Trust Indenture, or delivering the mortgage documents or mortgage bond to the Trustee, and designating such property as "Trusteed Properties" 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 under the Trust Indenture, obligations to the provider of a credit or liquidity facility securing 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 (10^{th}) day of each month, 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 Executive Director 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.

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. The Trustee shall execute such documents to evidence such release as PRIDCO may reasonably require, and shall turn over to PRIDCO or to such officer, board or body as may then be entitled by law to receive the same any surplus in any account in the Sinking Fund; otherwise this Trust Indenture shall be, continue and remain in full force and effect; provided, however, that in the event Government Obligations or Prerefunded Municipals or Time Deposits secured in the manner set forth in Section 501 of the Trust Indenture shall be held by the Trustee as hereinabove provided, (i) in the event said bonds do not mature and are not to be redeemed within the next succeeding sixty (60) days, in addition to the requirements set forth in Article III of this Trust Indenture, the Trustee shall within thirty (30) days after such obligations shall have been deposited with it cause a notice signed by the Trustee to be published once in a daily newspaper of general circulation in the Municipality of San Juan, Puerto Rico, and in a daily newspaper or a financial journal of general circulation in the Borough of Manhattan, city and State of New York, setting forth (a) the date designated for the redemption of the bonds, (b) a description of the Government Obligations, Prerefunded Municipals or Time Deposits so held by it and (c) that this Trust Indenture has been released in accordance with the provisions of this Section, and (ii) the Trustee shall nevertheless retain such rights, powers and privileges under this Trust Indenture, as may be necessary and convenient in respect of the bonds for the payment of the principal, interest and any premium for which such Government Obligations or Prerefunded Municipals have been deposited or such Time Deposits have been made.

For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof shall be calculated at the maximum rate permitted by the terms thereof.

Put Bonds and Extendible Maturity Bonds shall be deemed to have been paid only if there shall have been deposited with the Trustee moneys, Government Obligations, Time Deposits or Prerefunded Municipals in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such bonds which would become payable to the holders of such bonds upon the exercise of any options or extensions of maturity; provided, however, that, if at the time a deposit is made with the Trustee, the options or maturity extensions originally exercisable are no longer exercisable, such bond shall not be considered a Put Bond or an Extendible Maturity Bond for purposes of this Section.

APPENDIX II

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information and Supplemental Schedules

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

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KPMG

American International Plaza
Suite 1100
250 Ave. Muñoz Rivera
San Juan, PR 00918-1819

Independent Auditors' Report

The Board of Directors
Puerto Rico Industrial Development Company:

We have audited the accompanying financial statements of each major fund of Puerto Rico Industrial Development Company (the Company), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2002 and 2001, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Puerto Rico Industrial Development Company as of June 30, 2002 and 2001, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 1, 2002 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

As described in note 2 to the basic financial statements, the Company has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprised the Company's basic financial statements. The schedule of changes in cash and sinking fund per trust indenture is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 1, 2002

KPMG LLP

Stamp No. 1847236 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

The Puerto Rico Industrial Development Company's (the Company) management provides the Company's annual financial report and the discussion and analysis of the Company's financial performance during the fiscal years ended June 30, 2002 and 2001.

These financial statements include the financial position and results of operations of five separate legal entities comprised of the Puerto Rico Industrial Development Company and its four component units, the Puerto Rico Industrial Investment Company, the Puerto Rico Industrial Incentives Fund, Inc., the Puerto Rico Investment Development Company, and the Southern Industrial Development Company.

Overview of the Financial Statements

This annual report includes the management's discussion and analysis report, the independent auditors' report, and the basic financial statements of the Company. The financial statements also include notes that explain in more detail the information contained in the financial statements.

Required Financial Statements

The financial statements of the Company report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to company creditors (liabilities). It also provides the basis for evaluating the capital of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the success of the Company's operations over the past year and can be used to determine whether the Company has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Company

One of the most important questions asked about the Company's finances is "Is the Company as a whole better off or worse off as a result of this year's activities?" The balance sheet and the statement of revenue, expenses, and changes in net assets report information about the Company's activities in a way that will help answer this question. These two statements report the net assets of the Company and the changes in them. One can think of the Company's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the Company's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed government legislation.

Net Assets

June 30, 2002 and 2001

To begin our analysis, the condensed balance sheet is presented below (dollar amounts in thousands):

		June 30,			Change
		2002	**2001**	**Change**	**Pctg.**
Current assets	$	48,162	46,665	1,497	3.21%
Capital assets, net		641,865	612,675	29,190	4.76%
Noncurrent assets		108,316	114,763	(6,447)	(5.62)%
Total assets	$	798,343	774,103	24,240	3.13%
Current liabilities	$	134,584	84,594	49,990	59.09%
Noncurrent liabilities		197,950	235,167	(37,217)	(15.83)%
Total liabilities		332,534	319,761	12,773	3.99%
Net assets:					
Invested in capital assets, net of related debt		372,550	361,057	11,493	3.18%
Restricted		121,445	117,227	4,218	3.60%
Deficit		(28,186)	(23,942)	(4,244)	(17.73)%
		465,809	454,342	11,467	2.52%
Total liabilities and net assets	$	798,343	774,103	24,240	3.13%

Net assets of the Company increased approximately by $11.5 million. Such increase is the net effect of $24.2 million increase in total assets and increases of $13 million in liabilities. Total assets increased as the result of $5 million investment in Vectron and the recurrent expenditures in the construction program. New facilities include $9.6 million made in Stryker, $5.5 million made in Baxter-Aibonito, among others.

The increase in total liabilities of $12.8 million is principally related to the increase in a line of credit from the Government Development Bank for Puerto Rico of $58.9 million as of June 30, 2002 ($40.9 in 2001). The proceeds from this line of credit were used to finance the Company's capital improvement program. Such line of credit will be refinanced during 2003 through a bond issuance.

(Continued)

The condensed statements of revenue, expenses, and changes in net assets are presented below (in thousands):

		Year ended June 30,		Change	
		2002	**2001**	**In dollars**	**Pctg.**
Operating revenue – rental income:					
Rental income	$	47,474	48,639	(1,165)	(2)%
Settlement of interest exchange		—	16,776	(16,776)	(100)%
Venture capital initiative program		8,991	—	8,991	0%
		56,465	65,415	(8,950)	(14)%
Nonoperating revenue:					
Gain on sale of properties		5,701	12,857	(7,156)	(56)%
Legislative appropriations		15,333	8,000	7,333	92%
Other income		185	205	(20)	(10)%
Net investment income		5,067	7,357	(2,290)	(31)%
		26,286	28,419	(2,133)	(8)%
Total revenue		82,751	93,834	(11,083)	(12)%
Operating expenses:					
Salaries and wages		25,337	24,690	647	3%
Administrative, general, and other expenses		23,138	39,166	(16,028)	(41)%
Depreciation and amortization		16,006	15,016	990	7%
Industrial incentive grants		6,058	23,736	(17,678)	(74)%
Loss impairment in fair value of investment		841	422	419	99%
Less capitalized expenses		(5,390)	(8,832)	3,442	(39)%
Total operating expenses		65,990	94,198	(28,208)	(30)%
Nonoperating expenses:					
Interest, net		15,812	14,746	1,066	7%
Loss on equity securities		—	10,450	(10,450)	(100)%
Total expenses		81,802	119,394	(37,592)	(31)%
Contributions – U.S. government		2,227	569	1,658	291%
Capital contributions		8,291	1,726	6,565	380%
Change in net assets	$	11,467	(23,265)	34,732	(149)%
Net assets, beginning of year	$	454,342	477,607	(23,265)	(5)%
Net assets, end of year	$	465,809	454,342	11,467	2.5%

Overall, the results of the current year's operations of the Company reflect an increase in net assets of $11.5 million. Even though revenue reflects a decrease of $11.1 million it is mitigated by a decrease in operating and nonoperating expenses of $37.6 million or 31%. Administrative expenses decreased $16.0 million, incentives and grants decreased $17.7 million.

Revenue decreased due to an income from settlement of interest received in prior year which did not happen in 2002. The decrease in general and administrative expenses is the result of Company's policy of reducing operational and administrative expenses and primarily associated with a reduction of $5.5 million of professional services contracts that were not contracted in 2002. This includes $3.6 million of Ketchum, $1.9 million of Verner Liipfert, Publimer, Casiano, and others.

In addition, industrial incentives disbursed decreased by $17.7 million or 74% since prior year's compliance with incentive grants were reached by companies for which the fund had significant commitments.

Comparison for 2001 and 2000 Statement of Net Assets

		June 30			Change
		2001	**2000**	**Change**	**Pctg.**
Current assets	$	46,665	49,709	(3,044)	(6.12%)
Capital assets, net		612,675	558,007	54,668	9.80%
Noncurrent assets		114,763	151,588	(36,825)	(24.29%)
Total assets	$	774,103	759,304	14,799	1.95%
Current liabilities	$	84,594	81,172	3,422	4.22%
Noncurrent liabilities		235,167	200,525	34,642	17.28%
Total liabilities		319,761	281,697	38,064	13.51%
Net assets:					
Invested in capital assets, net of related debt		361,057	357,482	3,575	1.00%
Restricted		117,227	151,588	(34,361)	(22.67%)
Deficit		(23,942)	(31,463)	7,521	(23.90%)
		454,342	477,607	(23,265)	(4.87%)
Total liabilities and net assets	$	774,103	759,304	14,799	1.95%

Net assets of the Company decreased approximately by $23.3 million. Such decrease is the net effect of an increase of $14.8 million in total assets and of $38.1 million in liabilities, respectively. Total assets increased as the result of an aggressive development and construction program, which increased noncurrent assets by $36.8 million. The increase in total liabilities of $38.1 million is principally related to a line of credit from the Government Development Bank for Puerto Rico of $40.9 million as of June 30, 2001. The proceeds from this line of credit were used to finance the acquisition, construction, and development of projects for additional improvements to the Company's facilities.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

Years ended June 30, 2002 and 2001

Comparison for 2001 and 2000 Statement of Net Assets

	Year ended June 30,		Change	
	2001	**2000**	**In dollars**	**Pctg.**
Operating revenue – rental income:				
Renal income	$ 48,639	41,763	6,876	16%
Settlement of interest exchange	16,776	115,660	(98,884)	(85%)
	65,415	157,423	(92,008)	(58%)
Nonoperating revenue:				
Gain on sale of properties	12,857	15,737	(2,880)	(18%)
Legislative appropriations	8,000	10,691	(2,691)	(25%)
Other income	205	—	205	100%
Net investment income	7,357	4,395	2,962	67%
	28,419	30,823	(2,404)	(8%)
Total revenue	93,834	188,246	(94,412)	(50%)
Operating expenses:				
Salaries and wages	24,690	24,328	362	1%
Administrative, general, and other expenses	39,166	25,454	13,712	54%
Depreciation and amortization	15,016	15,473	(457)	(3%)
Industrial incentive grants	23,736	18,482	5,254	28%
Loss impairment in fair value of investment	422	—	422	100%
Less capitalized expenses	(8,832)	(4,267)	(4,565)	107%
Total operating expenses	94,198	79,470	14,728	19%
Nonoperating expenses:				
Interest, net	14,746	15,663	(917)	(6%)
Loss on equity securities	10,450	—	10,450	100%
Total expenses	119,394	95,133	24,261	26%
Contributions – U.S. government	569	—	569	100%
Capital contributions	1,726	—	1,726	100%
Change in net assets	$ (23,265)	93,113	(116,378)	(125%)
Net assets, beginning of year	$ 477,607	384,494	93,113	24%
Net assets, end of year	$ 454,342	477,607	(23,265)	(4.9%)

(Continued)

The Company's results for the year 2001 show a decrease of $116.4 million compared to year 2000. Revenue decrease of $94.4 million is mainly due to the lack of income from settlement of interest such as was received in year 2000. During fiscal year 2000, PRIIF entered into two significant noncurrent transactions that resulted in income of approximately $100.5 million. The first transaction, Private Placements of Certificates of Participation Class A and Class B for a Holding Trust, was completed during July 1999, which resulted in income of approximately $86.5 million. The second transaction consisted of two Private Placements of Back to Back Promissory Notes with an income of approximately $13.9 million.

The increase in total expenses is the result of a loss on equity securities of $10.4 million during 2001 and the increase of $13.7 million of administrative expense primarily associated with professionals services contracts.

Capital Assets

The Company's investment in capital assets as of June 30, 2002, 2001, and 2000 amounted to approximately $641, $613, and $558 million, respectively, net of accumulated depreciation. Capital assets include land, land held for sale, land improvements, industrial development buildings and improvements, administration buildings and improvements, machinery and equipment, and vehicles.

During the years ended June 30, 2002 and 2001, the Company invested approximately $45.8 million and $73.9 million, respectively, mainly related to construction in progress of buildings that will be leased to private organizations, as part of the Company's industrial development activities. This construction activity is mainly financed through lines of credit, which are later refinanced on a long-term basis. The Company has issued revenue bonds amounting to $184 and $189 million at June 30, 2002 and 2001 that are secured solely from the rent received from the lease agreements on such premises.

Depreciation accumulated during the years ended June 30, 2002 and 2001 amounted to approximately $16 million and $12.3 million, respectively.

See note 6 to the basic financial statements for additional details on capital assets at year-end and activity during the fiscal year.

Debt Administration

At June 30, 2002, the Company had $184 million in outstanding bonds, including the current portion of $6.5 million. The Company repaid $8.7 million in principal on bonds outstanding during the fiscal year. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements (note 10).

Contacting PRIDCO's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Company's finances and to demonstrate the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet

June 30, 2002
(In thousands)

Assets	**Puerto Rico Industrial Development Company**	**Puerto Rico Industrial Incentives Fund, Inc.**	**Puerto Rico Industrial Investment Company**	**Eliminations**	**Total reporting entity**
Current assets:					
Cash and cash equivalents	$ 22,697	—	73	—	22,770
Sinking funds	10,557	—	—	—	10,557
Rent and accounts receivable, net	10,577	196	336	—	11,109
Interest receivable	3,364	—	39	—	3,403
Notes receivable, current maturities	—	323	—	—	323
Investment in component units	25,606	—	—	(25,606)	—
Due from other funds	55,962	14,604	41,583	(112,149)	—
Total current assets	128,763	15,123	42,031	(137,755)	48,162
Noncurrent assets:					
Restricted cash and cash equivalents	—	62,177	—	—	62,177
Notes receivable – noncurrent portion	—	4,831	—	—	4,831
Sinking fund reserve account at accreted cost	24,816	—	—	—	24,816
Investment in equity securities, at cost	—	8,000	—	—	8,000
Deferred bond issue costs and other assets	3,343	—		—	3,343
Lease financing	—	—	5,149	—	5,149
Capital assets, net	599,552	—	42,313	—	641,865
Total noncurrent assets	627,711	75,008	47,462	—	750,181
Total assets	$ 756,474	90,131	89,493	(137,755)	798,343
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Notes payable to commercial banks	$ —	—	1,055	—	1,055
Bonds payable	6,515	—	—	—	6,515
Obligations under capital leases	657	—	—	—	657
Note payable to Government Development Bank	59,250	—	—	—	59,250
Bank overdraft	—	37	—	—	37
Contract retentions and deposits	2,936	—	952	—	3,888
Accrued interest	6,811	—	—	—	6,811
Accounts payable and other accrued liabilities	50,508	4,022	322	—	54,852
Deferred credit	1,519	—	—	—	1,519
Due to other funds	56,241	—	55,908	(112,149)	—
Total current liabilities	184,437	4,059	58,237	(112,149)	134,584
Noncurrent liabilities:					
Bonds payable	177,518	—	—	—	177,518
Notes and loans payable to commercial banks	—	—	19,549	—	19,549
Obligations under capital leases	501	—	—	—	501
Note payable to Government Development Bank	382	—	—	—	382
Total noncurrent liabilities	178,401	—	19,549	—	197,950
Total liabilities	362,838	4,059	77,786	(112,149)	332,534
Net assets:					
Invested in capital assets	351,793	—	20,757	—	372,550
Restricted	35,373	86,072	—	—	121,445
Unrestricted (deficit)	6,470	—	(9,050)	(25,606)	(28,186)
Total net assets	393,636	86,072	11,707	(25,606)	465,809
Total liabilities and net assets	$ 756,474	90,131	89,493	(137,755)	798,343

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet

June 30, 2001
(In thousands)

Assets	**Puerto Rico Industrial Development Company**	**Puerto Rico Industrial Incentives Fund, Inc.**	**Puerto Rico Industrial Investment Company**	**Eliminations**	**Total reporting entity**
Current assets:					
Cash and cash equivalents	$ 18,540	18	75	—	18,633
Sinking funds	10,497	—	—	—	10,497
Rent and accounts receivable, net	13,509	196	312	—	14,017
Interest receivable	3,007	179	39	—	3,225
Notes receivable, current maturities	—	293	—	—	293
Investment in component units	25,606	—	—	(25,606)	—
Due from other funds	51,838	14,604	36,354	(102,796)	—
Total current assets	122,997	15,290	36,780	(128,402)	46,665
Noncurrent assets:					
Restricted cash and cash equivalents	—	73,687	—	—	73,687
Notes receivable – noncurrent portion	—	5,159	—	—	5,159
Sinking fund reserve account at accreted cost	23,351	—	—	—	23,351
Investment in equity securities, at cost	—	3,000	—	—	3,000
Deferred bond issue costs and other assets	3,965	—		—	3,965
Lease financing	—	—	5,601	—	5,601
Capital assets, net	579,301	—	33,374	—	612,675
Total noncurrent assets	606,617	81,846	38,975	—	727,438
Total assets	$ 729,614	97,136	75,755	(128,402)	774,103
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Notes and loans payable to commercial bank	$ —	—	869	—	869
Bonds payable	8,730	—	—	—	8,730
Obligations under capital leases	777	—	—	—	777
Note payable to Government Development Bank	754	—	—	—	754
Contract retentions and deposits	5,321	—	—	—	5,321
Accrued interest	6,558	—	—	—	6,558
Accounts payable and other accrued liabilities	45,995	13,757	418	—	60,170
Deferred credits	1,415	—	—	—	1,415
Due to other funds	50,958	—	51,838	(102,796)	—
Total current liabilities	120,508	13,757	53,125	(102,796)	84,594
Noncurrent liabilities:					
Bonds payable	180,756	—	—	—	180,756
Notes and loans payable to commercial bank	—	—	12,456	—	12,456
Obligations under capital leases	1,074	—	—	—	1,074
Note payable to Government Development Bank	40,881	—	—	—	40,881
Total noncurrent liabilities	222,711	—	12,456	—	235,167
Total liabilities	343,219	13,757	65,581	(102,796)	319,761
Net assets:					
Invested in capital assets, net of related debt	341,008	—	20,049	—	361,057
Restricted	33,848	83,379	—	—	117,227
Unrestricted (deficit)	11,539	—	(9,875)	(25,606)	(23,942)
Total net assets	386,395	83,379	10,174	(25,606)	454,342
Total liabilities and net assets	$ 729,614	97,136	75,755	(128,402)	774,103

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2002
(In thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Eliminations	Total reporting entity
Operating revenue:					
Rental income, substantially from industrial properties, net	$ 46,635	—	4,505	(3,666)	47,474
Income from Venture Capital Initiative Program	—	8,991	—	—	8,991
Total operating revenue	46,635	8,991	4,505	(3,666)	56,465
Operating expenses:					
Salaries and wages	25,337	—	—		25,337
Administrative and general	22,655	375	2,168	(3,666)	21,532
Depreciation and amortization	15,014	—	992	—	16,006
Maintenance and repairs, net	1,084	—	252	—	1,336
Provision for environmental matters	270	—	—	—	270
Loss on impairment of capital assets	841	—	—	—	841
Industrial incentives and grants	—	6,058	—	—	6,058
Total operating expenses	65,201	6,433	3,412	(3,666)	71,380
Less capitalized expenses	4,493	—	897	—	5,390
Total operating expenses, net	60,708	6,433	2,515	(3,666)	65,990
Operating income (loss)	(14,073)	2,558	1,990	—	(9,525)
Nonoperating revenue (expenses):					
Net gain on sale of property	5,701	—	—	—	5,701
Interest income	2,718	1,937	412	—	5,067
Legislative appropriations from the Commonwealth of Puerto Rico	15,333	—	—	—	15,333
Interest expense, net of capitalized interest of $2,088	(14,061)	—	(869)	—	(14,930)
Amortization of debt issue costs and deferred loss	(882)	—	—	—	(882)
Other nonoperating revenue	185	—	—	—	185
Total nonoperating revenue (expenses)	8,994	1,937	(457)	—	10,474
Income before contributions and transfers	(5,079)	4,495	1,533	—	949
Capital contributions	8,291	—	—	—	8,291
Contributions – U.S. government	2,227	—	—	—	2,227
Transfers	1,802	(1,802)	—	—	—
Change in net assets	7,241	2,693	1,533	—	11,467
Net assets, beginning of year	386,395	83,379	10,174	(25,606)	454,342
Net assets, end of year	$ 393,636	86,072	11,707	(25,606)	465,809

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2001
(In thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Eliminations	Total reporting entity
Operating revenue:					
Rental income, substantially from industrial properties, net	$ 47,651	—	4,654	(3,666)	48,639
Settlement of interest exchange agreements	—	16,776	—	—	16,776
Total operating revenue	47,651	16,776	4,654	(3,666)	65,415
Operating expenses:					
Salaries and wages	24,690	—	—	—	24,690
Administrative and general	25,360	7,162	2,330	(3,666)	31,186
Depreciation and amortization	14,037	—	979	—	15,016
Maintenance and repairs, net	6,717	—	1,113	—	7,830
Provision for environmental matters	150	—	—	—	150
Loss on impairment of capital assets	422	—	—	—	422
Industrial incentives and grants	—	23,736	—	—	23,736
Total operating expenses	71,376	30,898	4,422	(3,666)	103,030
Less capitalized expenses	8,832	—	—	—	8,832
Total operating expenses, net	62,544	30,898	4,422	(3,666)	94,198
Operating income (loss)	(14,893)	(14,122)	232	—	(28,783)
Nonoperating revenue (expenses):					
Net gain on sale of property	12,857	—	—	—	12,857
Interest income	1,371	5,546	440	—	7,357
Legislative appropriations from the Commonwealth of Puerto Rico	8,000	—	—	—	8,000
Loss on impairment in fair value of investments	—	(10,450)	—	—	(10,450)
Interest expense, net of capitalized interest of $1,358	(12,437)	—	(926)	—	(13,363)
Amortization of debt issue costs and deferred loss	(1,383)	—	—	—	(1,383)
Other nonoperating revenue	205	—	—	—	205
Total nonoperating revenue (expenses)	8,613	(4,904)	(486)	—	3,223
Income before capital transfers and transfers	(6,280)	(19,026)	(254)	—	(25,560)
Capital contributions	1,726	—	—	—	1,726
Contributions – U.S. government	569	—	—	—	569
Transfers	16,395	(16,395)	—	—	—
Change in net assets	12,410	(35,421)	(254)	—	(23,265)
Net assets, beginning of year	373,985	118,800	10,428	(25,606)	477,607
Net assets, end of year	$ 386,395	83,379	10,174	(25,606)	454,342

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2002
(In thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Eliminations	Total reporting entity
Cash flows from operating activities:					
Cash collected from rental income	$ 49,863	—	4,505	(3,666)	50,702
Cash collected from Venture Capital Initiative Program	—	8,991	—	—	8,991
Cash paid for salaries and benefits	(24,507)	—	—	—	(24,507)
Cash paid for supplies and services	(17,844)	—	(667)	3,666	(14,845)
Cash paid for incentive grants	—	(15,793)	—	—	(15,793)
Other payments	(296)	—	—	—	(296)
Net cash provided by (used in) operating activities	7,216	(6,802)	3,838	—	4,252
Cash flows from capital and related financing activities:					
Proceeds from sale of property	9,731	—	—	—	9,731
Contributions	10,518	—	—	—	10,518
Capital transfers	1,802	(1,802)	—	—	—
Proceeds from line of credit with Government Development Bank	18,034	—	—	—	18,034
Payments of property and equipment and land held for improvement	(39,190)	—	(9,931)	—	(49,121)
Payments of notes and loans payable	(75)	—	(867)	—	(942)
Payments of capital leases	(703)	—	—	—	(703)
Proceeds from issuance of notes payable	—	—	8,146	—	8,146
Payments of bonds payable	(8,730)	—	—	—	(8,730)
Interest paid	(11,959)	—	(869)	—	(12,828)
Net cash used in capital and related financing activities	(20,572)	(1,802)	(3,521)	—	(25,895)
Cash flows from noncapital and related financing activities:					
Contributions received from legislative appropriations from the Commonwealth of Puerto Rico	15,333	—	—	—	15,333
Increase in bank overdraft	—	37	—	—	37
Net payments from (to) blended component units	1,159	—	(1,159)	—	—
Net cash provided by (used in) noncapital and related financing activities	16,492	37	(1,159)	—	15,370
Cash flows from investing activities:					
Net change in sinking fund – redemption and bond service accounts	(1,525)	—	—	—	(1,525)
Interest collected	2,546	2,116	412	—	5,074
Collection from notes receivable	—	298	—	—	298
Increase in note receivable	—	(375)	—	—	(375)
Collection from lease financing agreement	—	—	428	—	428
Investment in preferred shares	—	(5,000)	—	—	(5,000)
Net cash provided by (used in) investing activities	1,021	(2,961)	840	—	(1,100)
Net change in cash and cash equivalents	4,157	(11,528)	(2)	—	(7,373)
Cash and cash equivalents, beginning of year	18,540	73,705	75	—	92,320
Cash and cash equivalents, end of year	$ 22,697	62,177	73	—	84,947
Reconciliation with cash and cash equivalents on the balance sheet:					
Unrestricted cash and cash equivalents	$ 22,697	—	73	—	22,770
Restricted cash and cash equivalents	—	62,177	—	—	62,177
Total cash and cash equivalents	$ 22,697	62,177	73	—	84,947
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Cash flows from operating activities:					
Operating income (loss)	$ (14,073)	2,558	1,990	—	(9,525)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	15,014	—	992	—	16,006
Provision for environmental matters	270	—	—	—	270
Loss on impairment of capital assets	841	—	—	—	841
Provision for uncollectible loans	—	375	—	—	375
Decrease in receivables	2,932	—	—	—	2,932
Decrease in contract retentions and deposits	(2,385)	—	—	—	(2,385)
Increase (decrease) in accounts payable and accrued liabilities	4,617	(9,735)	856	—	(4,262)
Net cash provided by (used in) operating activities	$ 7,216	(6,802)	3,838	—	4,252

See accompanying notes to basic financial statements.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year ended June 30, 2001
(In thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Eliminations	Total reporting entity
Cash flows from operating activities:					
Cash collected from rental income	$ 52,224	—	4,654	(3,666)	53,212
Cash collected from settlement of interest exchange agreements	—	16,776	—	—	16,776
Cash paid for salaries and benefits	(24,690)	—	—	—	(24,690)
Cash paid for supplies and services	(14,612)	(5,142)	(3,477)	3,666	(19,565)
Cash paid for incentive grants	—	(13,629)	—	—	(13,629)
Net cash provided by (used in) operating activities	12,922	(1,995)	1,177	—	12,104
Cash flows from capital and related financing activities:					
Proceeds from sale of property	14,740	—	—	—	14,740
Contributions	2,295	—	—	—	2,295
Capital transfers	16,395	(16,395)	—		—
Proceeds from line of credit with Government Development Bank	40,881	—	—	—	40,881
Payments to the line of credit with Government Development Bank	(14,705)	—	—	—	(14,705)
Payments for property and equipment and land held for improvement	(70,101)	—	(199)	—	(70,300)
Payments of notes and loans payable	(153)	—	(812)	—	(965)
Payments capital leases	(115)	—	—	—	(115)
Payments of bonds payable	(8,145)	—	—	—	(8,145)
Interest paid	(5,976)	—	(926)	—	(6,902)
Net cash used in capital and related financing activities	(24,884)	(16,395)	(1,937)	—	(43,216)
Cash flows from noncapital and related financing activities:					
Contributions received from legislative appropriations from the Commonwealth of Puerto Rico	24,431	—	—	—	24,431
Net payments from (to) blended component units	3,623	(3,638)	15	—	—
Net cash provided by (used in) noncapital and related financing activities	28,054	(3,638)	15	—	24,431
Cash flows from investing activities:					
Net change in sinking fund – redemption and bond service accounts	(285)	—	—	—	(285)
Interest collected	977	5,757	492	—	7,226
Increase in note receivable	—	(5,452)	—	—	(5,452)
Collection from lease financing agreement	—	—	215	—	215
Investment in preferred shares	—	(10,450)	—	—	(10,450)
Net cash provided by (used in) investing activities	692	(10,145)	707	—	(8,746)
Net change in cash and cash equivalents	16,784	(32,173)	(38)	—	(15,427)
Cash and cash equivalents, beginning of year	1,756	105,878	113	—	107,747
Cash and cash equivalents, end of year:	$ 18,540	73,705	75	—	92,320
Reconciliation with cash and cash equivalents on the balance sheet:					
Unrestricted cash and cash equivalents	$ 18,540	18	75	—	18,633
Restricted cash and cash equivalents	—	73,687	—	—	73,687
Total cash and cash equivalents	$ 18,540	73,705	75	—	92,320
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Cash flows from operating activities:					
Operating income (loss)	$ (14,893)	(14,122)	232	—	(28,783)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	14,036	—	979	—	15,015
Provision for environmental matters	150	—	—	—	150
Loss on impairment of capital assets	422	—	—	—	422
Provision for uncollectible loans	—	4,000	—	—	4,000
Decrease in receivables	5,483	—	—	—	5,483
Decrease in contract retentions and deposits	3,332	—	—	—	3,332
Increase (decrease) in accounts payable and other accrued liabilities	4,392	8,127	(34)	—	12,485
Net cash provided by operating activities	$ 12,922	(1,995)	1,177	—	12,104

See accompanying notes to basic financial statements.

(1) Reporting Entity

Puerto Rico Industrial Development Company (PRIDCO or the Company), is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Law No. 188, as amended. PRIDCO is engaged in promoting the establishment of new local enterprises and encouraging U.S. mainland and foreign investors to establish and expand operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present PRIDCO and its component units. Component units are entities for which PRIDCO is considered to be financially accountable, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* The following component units are reported as blended component units of PRIDCO.

- Puerto Rico Industrial Incentives Fund, Inc. (PRIIF) was created effective March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and maintain existing employment in the industrial and service sectors of the Puerto Rico economy. Funds generated by PRIIF are restricted to providing financial assistance to private business enterprises.
- Puerto Rico Industrial Investment Company (PRIICO) owns the building where the Company's offices are located. These premises are leased to the Company and other related and unrelated entities. It also enters in financial leasing to facilitate promotion of special type industries.

Pursuant a Stock Purchase Agreement dated May 1, 2002, the Company acquired all outstanding shares of Star-Kist Food, Inc. for $4,000, which represents the fair value of the land that it owned. Subsequently, Star-Kist Food, Inc. changed its name to Puerto Rico Investment Development Company. This entity remained inactive through June 30, 2002.

The balances and transactions of the component units discussed above have been blended with those of the Company in accordance with accounting principles generally accepted in the United States of America because, while legally separate, they were created and can be dissolved through resolutions of the Company's board of directors. The board of directors of each of the blended component units is substantively the same as that of the Company.

PRIDCO also administers the Special Incentives, Development Special Fund and Puerto Rican Rums programs. PRIDCO submits annual requests to the Legislature of the Commonwealth for appropriations to continue the Special Incentives and Puerto Rican Rums programs. Upon receipt of subsidies from the Legislature of the Commonwealth, PRIDCO deposits such subsidies 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 accompanying balance sheets.

(2) Basis of Presentation and Summary of Significant Accounting Policies

The accounting and financial reporting policies of PRIDCO and its blended component units conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. PRIDCO has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 unless these conflict with or contradict GASB pronouncements.

(a) Operating Revenue and Expenses

PRIDCO's proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(b) Revenue Recognition

(i) Rental Revenue

Income from rental 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, subject to penalty in case of early termination.

(ii) Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is provided by periodic charges to rental income which amounted to $5,593 and $6,500 on June 30, 2002 and 2001, respectively. The allowance is based on management's evaluation of the aging of accounts, consideration of economic conditions, and such other factors, deserving current recognition. Receivables deemed to be uncollectible are written off against the allowance. Actual results could differ from those estimates.

(iii) Interest Exchange Agreement Revenue in 2001

PRIIF's revenue is recognized on the accrual basis and originates mostly from the settlement of interest exchange agreements or similar arrangements with qualifying exempt businesses (the investor) operating under one of the various industrial incentives acts.

The investor has the following advantages: (1) immediate repatriation of funds that would otherwise remain invested; (2) no credit risk exposure for its investment; and (3) possible deductibility of net swap payment for federal income tax purposes. On the other hand, PRIIF can have access to the funds immediately available with present value payments and the Commonwealth has no loss of tollgate tax.

Under the terms of the agreement, the investor is required to pay PRIIF the present value of the net difference between two cash streams, as follows: (a) an amount determined by applying the prevailing rate for industrial development income medium term investment instruments available in the local market to a notional amount determined in the agreement, and (b) an amount determined by applying the market rate at which PRIIF could invest the aforementioned notional amount. The notional amount will be the principal amount required to be invested by the investor for tollgate tax reduction purposes.

Management believes that revenue derived from the settlement of interest exchange agreements and similar transactions will cease in the near future, as the investors' industrial development income eligible for these transactions will either have been substantially repatriated or already committed to interest exchange agreements or similar transactions.

(iv) Nonexchange Transactions

PRIDCO received appropriations from the Commonwealth to carry out economic development programs and activities. Appropriations received during the years ended June 30, 2002 and 2001 amounted to approximately $15,333 and $8,000, respectively. Appropriations received were used to cover salaries and wages and administrative and general expenses of PRIDCO.

In addition, PRIDCO submits requests to the Legislature of the Commonwealth and to certain agencies of the Commonwealth or of the United States of America for appropriations to continue its programs of construction of industrial facilities and industrial incentives.

The Company accounts for nonexchange transactions in accordance with requirements of GASB No. 33 issued in December 1998. PRIDCO's source of revenue derived from nonexchange transactions is represented by grants, including contributions in aid of construction, mainly from various agencies of the Government of the United States and the Commonwealth. Appropriation received during the years ended June 30, 2002 and 2001 amounted to $10,518 and $2,295, respectively.

(c) Deposits and Investments

PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

PRIDCO is authorized to invest in debt and equity securities. Investments in equity securities consist primarily of preferred shares of stock and are stated at cost, since its fair value is not readily determinable.

(d) Interest Recognition

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

(e) Capital Assets

Capital assets are stated at cost. Cost of construction includes, among other things, interest costs, indirect costs consisting of payroll taxes, and other fringe benefits. Total interest capitalized were approximately $2,088 and $1,358, for the years ended June 30, 2002 and 2001, respectively.

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.

(In thousands)

Generally, estimated useful lives are as follows:

Buildings and improvements	50 years
Machinery and equipment	15 years
Furniture and vehicles	5-15 years

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.

(f) Industrial Incentives Granted

Industrial incentives are granted to businesses qualifying for financial assistance or to motivate and encourage investment of foreign corporations in Puerto Rico as defined by the fund. Total amounts disbursed for the years ended June 30, 2002 and 2001 amounted to approximately $17,595 and $30,024, respectively. As of June 30, 2002 and 2001, $1,802 and $16,395, respectively, were for the improvement of the building facilities leased by PRIDCO to qualified businesses. These transactions were included as transfers from affiliates and resulted in no effect in PRIDCO's current operations.

(g) 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.

(h) Interfund Activity and Balances

Interfund receivables and payables have been eliminated from the basic financial statements.

(i) Compensated Absences

The employees of the Company are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. For sick leave, in the event of employee resignation, the employee is paid up to the maximum allowed if the employee has worked with the Commonwealth for 10 years of more, and up to 40% of the accumulated amount if the employee has worked between 1 to 10 years. Since PRIDCO has the policy of liquidating all accrued but unused vacation and sick leave, all amounts are considered to be payable within one year.

(j) Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(Continued)

(k) Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments

The Company has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34,* and Statement No. 38, *Certain Financial Statement Note Disclosures,* effective July 1, 2000.

The GASB No. 34 establishes new financial reporting requirements for state and local governments. In the case of entities engaged only in business-type activities, this statement requires, among other things, the inclusion of management's discussion and analysis of the entity's financial activities, along with preparing the statement of cash flows using the direct method. The statement of net assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

(l) Recent Accounting Developments

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The impact of this statement on PRIDCO's financial statements has not yet been determined.

(3) Cash, Cash Equivalents, and Restricted Cash

GASB No. 3 requires certain disclosures for deposits, including management's determination of custodial credit risk, defined as follows:

For deposits, the bank balance must be categorized as follows:

- ***Category 1***: Insured or collateralized with securities held by the Company or its agent in the Company's name.

(In thousands)

- ***Category 2***: Collateralized with securities held by the pledging financial institution's trust department or agent in the Company's name.
- ***Category 3***: Uncollateralized.

Cash equivalents of $20,106 and $18,689 at June 30, 2002 and 2001, respectively, consist mainly of overnight repurchase agreements and certificates of deposit with an initial term of less than three months. 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 Puerto Rico Secretary of the Treasury.

Restricted cash consist of $62,177 and $73,687, as of June 30, 2002 and 2001, respectively, are comprised of U.S. government securities and time deposit open accounts.

The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

The unsecured and uncollateralized deposits in commercial banks are the amounts in excess of $100,000 of accounts held by trustees under trust indentures created in connection with the issuance of bonds.

June 30, 2002

	Puerto Rico Industrial Development Company				
	Category			**Carrying amount**	**Depository bank balance**
	1	**2**	**3**		
Cash	$ 745	—	1,597	2,342	3,768
Deposits placed with banks	700	—	19,655	20,355	20,355
	$ 1,445	—	21,252	22,697	24,123

	Puerto Rico Industrial Incentives Fund, Inc.				
	Category			**Carrying amount**	**Depository bank balance**
	1	**2**	**3**		
Deposits placed with banks	$ 700	—	61,477	62,177	62,177

	Puerto Rico Industrial Investment Company				
	Category			**Carrying amount**	**Depository bank balance**
	1	**2**	**3**		
Cash	$ 73	—	—	73	71

(In thousands)

June 30, 2001

Puerto Rico Industrial Development Company

	Category 1	Category 2	Category 3	Carrying amount	Depository bank balance
Cash	$ 565	—	(714)	(149)	2,222
Deposits placed with banks	300	—	3,789	4,089	4,089
Federal funds	—	—	14,600	14,600	14,600
	$ 865	—	17,675	18,540	20,911

Puerto Rico Industrial Incentives Fund, Inc.

	Category 1	Category 2	Category 3	Carrying amount	Depository bank balance
Cash	$ 18	—	—	18	226
Deposits placed with banks	500	—	73,187	73,687	73,687
	$ 518	—	73,187	73,705	73,913

Puerto Rico Industrial Investment Company

	Category 1	Category 2	Category 3	Carrying amount	Depository bank balance
Cash	$ 75	—	—	75	74

(In thousands)

(4) Rent and Accounts Receivable

Rent and accounts receivable as of June 30, 2002 and 2001 consist of the following:

		June 30, 2002			
		Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Total reporting entity
Rent receivable	$	46,779	—	336	47,115
Loans receivable		9,484	—	—	9,484
Others		13,736	196	—	13,932
Total		69,999	196	336	70,531
Allowance for uncollectible receivables		(59,422)	—	—	(59,422)
Total	$	10,577	196	336	11,109

		June 30, 2001			
		Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Total reporting entity
Rent receivable	$	48,167	—	312	48,479
Loans receivable		7,584	—	—	7,584
Others		14,723	196	—	14,919
Total		70,474	196	312	70,982
Allowance for uncollectible receivables		(56,965)	—	—	(56,965)
Total	$	13,509	196	312	14,017

(Continued)

(In thousands)

(5) Notes Receivable

Notes receivable of $5,154 and $5,452 at June 30, 2002 and 2001, respectively, represent the principal amount of various nonrevolving promissory notes issued to PRIIF by qualifying exempt businesses for the purpose of partially financing the acquisition of machinery and working capital needs. Notes receivable as of June 30, 2002 and 2001 consist of the following:

		2002	2001
Nonrevolving loans to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 6.55% during the term of the loans, payable in monthly installments of $135 commencing on May 31, 2001 through May 31, 2011.	$	3,702	4,000
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments commencing on December 1, 2003 over a 20-year period. This note is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.		500	500
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments commencing on December 1, 2004 over a 20-year period. This note is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery.		477	477
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 9% during the term of the loan. This note is due in monthly installments commencing on December 1, 2003 over a 10-year period.		475	475
		5,154	5,452
Less current maturities		(323)	(293)
	$	4,831	5,159

Under these credit facilities, the outstanding principal balance may be prepaid without penalty.

(In thousands)

During 2001, a new promissory note with an outstanding balance of $4,000 was fully charged against operations since it was considered to be permanently impaired.

(6) Interfund Balances and Transactions

Following is a summary of the interfund balances as of June 30, 2002 and 2001:

June 30, 2002

Receivable by fund	Payable by fund	Purpose		Amount
PRIDCO	PRIICO	Administrative and operating expenses	$	55,962
PRIIF	PRIDCO	Construction		14,604
PRIICO	PRIDCO	Rent receivable		41,583
		Total	$	112,149

June 30, 2001

Receivable by fund	Payable by fund	Purpose		Amount
PRIDCO	PRIICO	Administrative and operating expenses	$	51,838
PRIIF	PRIDCO	Construction		14,604
PRIICO	PRIDCO	Rent receivable		36,354
		Total	$	102,796

(In thousands)

(7) Capital Assets

Capital assets activity for the years ended June 30, 2002 and 2001 consist of the following:

		June 30, 2002			
		Puerto Rico Industrial Development Company			
		Beginning balance	**Additions**	**Reductions**	**Ending balance**
Capital assets not being depreciated:					
Land held for improvement	$	131,002	4,665	(3,331)	132,336
Land on leased projects		67,078	—	(103)	66,975
Construction in progress		40,752	23,768	(1,000)	63,520
Total capital assets not being depreciated		238,832	28,433	(4,434)	262,831
Capital assets being depreciated:					
Buildings and improvements		479,900	3,324	(597)	482,627
Machinery and equipment		33,429	7,285	—	40,714
Furniture and vehicles		41,923	76	—	41,999
Total capital assets being depreciated		555,252	10,685	(597)	565,340
Less accumulated depreciation for:					
Buildings and improvements		(195,559)	(13,857)	1,178	(208,238)
Machinery and equipment		(17,676)	(1,092)	—	(18,768)
Furniture and vehicles		(1,548)	(65)	—	(1,613)
Total accumulated depreciation		(214,783)	(15,014)	1,178	(228,619)
Total capital assets being depreciated, net		340,469	(4,329)	581	336,721
Total capital assets, net	$	579,301	24,104	(3,853)	599,552

(Continued)

(In thousands)

	June 30, 2002			
	Puerto Rico Industrial Investment Company			
	Beginning balance	**Additions**	**Reductions**	**Ending balance**
Capital assets not being depreciated:				
Land on leased projects	$ 2,002	—	—	2,002
Construction in progress	—	9,911	—	9,911
Total capital assets not being depreciated	2,002	9,911	—	11,913
Capital assets being depreciated:				
Buildings and improvements	40,765	—	—	40,765
Machinery and equipment	4,888	20	—	4,908
Total capital assets being depreciated	45,653	20	—	45,673
Less accumulated depreciation for:				
Buildings and improvements	(10,350)	(815)	—	(11,165)
Machinery and equipment	(3,931)	(177)	—	(4,108)
Total accumulated depreciation	(14,281)	(992)	—	(15,273)
Total capital assets being depreciated, net	31,372	(972)	—	30,400
Total capital assets, net	$ 33,374	8,939	—	42,313

(In thousands)

	June 30, 2001			
	Puerto Rico Industrial Development Company			
	Beginning balance	**Additions**	**Reductions**	**Ending balance**
Capital assets not being depreciated:				
Land held for improvement and sale	$ 117,582	14,453	(1,033)	131,002
Land on leased projects	54,808	12,270	—	67,078
Construction in progress	32,704	8,048	—	40,752
Total capital assets not being depreciated	205,094	34,771	(1,033)	238,832
Capital assets being depreciated:				
Buildings and improvements	452,009	30,139	(2,248)	479,900
Machinery and equipment	35,379	5,351	(3,695)	37,035
Furniture and vehicles	34,823	3,494	—	38,317
Total capital assets being depreciated	522,211	38,984	(5,943)	555,252
Less accumulated depreciation for:				
Buildings and improvements	(186,343)	(9,216)	—	(195,559)
Machinery and equipment	(15,802)	(1,874)	—	(17,676)
Furniture and vehicles	(1,306)	(242)	—	(1,548)
Total accumulated depreciation	(203,451)	(11,332)	—	(214,783)
Total capital assets being depreciated, net	318,760	27,652	(5,943)	340,469
Total capital assets, net	$ 523,854	62,423	(6,976)	579,301

(In thousands)

	June 30, 2001			
	Puerto Rico Industrial Investment Company			
	Beginning balance	**Additions**	**Reductions**	**Ending balance**
Capital assets not being depreciated:				
Land on leased projects	$ 2,002	—	—	2,002
Total capital assets not being depreciated	2,002	—	—	2,002
Capital assets being depreciated:				
Buildings and improvements	40,765	—	—	40,765
Machinery and equipment	4,688	200	—	4,888
Total capital assets being depreciated	45,453	200	—	45,653
Less accumulated depreciation for:				
Buildings and improvements	(9,535)	(815)	—	(10,350)
Machinery and equipment	(3,767)	(164)	—	(3,931)
Total accumulated depreciation	(13,302)	(979)	—	(14,281)
Total capital assets being depreciated, net	32,151	(779)	—	31,372
Total capital assets, net	$ 34,153	(779)	—	33,374

During 2002 and 2001, various buildings held but unused were deemed to be permanently impaired and written down to their net realizable value. Losses of $841 and $422 have been charged to operations in 2002 and 2001, respectively.

(8) Investments in Equity in Securities

GASB No. 3 requires certain disclosures for investments, including management's determination of custodial credit risk, defined as follow:

For investments other than deposits, the following categories apply:

- ***Category 1***: Insured or registered, or securities held by the Company, or its agents, in the Company's name.
- ***Category 2***: Uninsured and unregistered, held by the counterparty's trust department or agent in the Company's name.
- ***Category 3***: Uninsured and unregistered, held by the counterparty, its trust department or agent, but not in the Company's name.

(In thousands)

Investments in equity securities consist primarily of preferred shares of stock and are stated at cost. During 2001, an investment with an original cost of $10,450 was fully charged against operations since it was considered to be permanently impaired.

(9) Investment in and Advances to Puerto Rico Southern Industrial Development Company

Puerto Rico Southern Industrial Development Company (SIDCO) is a related organization engaged in promoting the development of the economy of Puerto Rico.

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 into on May 26, 1983 expired on December 31, 2000. The agreement calls for an annual rent 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. 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.

Pursuant to the terms of the agreement, the pharmaceutical company has the right to extend the initial term of the lease for two successive renewal periods, the first renewal for a period of seven years or that period of time ending 20 years after the date of commencement of operations of the pharmaceutical company's tax exemption grant (June 29, 1987), whichever date is later and the second renewal for an additional period of seven years commencing upon the expiration of the first renewal period. The pharmaceutical company duly and timely exercised its right to renew the lease for the first renewal period to end June 30, 2007, which was ratified by the parties as part of the lease agreement of May 26, 1983, mentioned above.

At June 30, 2002 and 2001 summarized information regarding SIDCO's assets follows:

		2002	2001
Current assets	$	248	224
Land and plant		90,118	90,118
Total assets		90,366	90,342
Contribution by pharmaceutical company		(88,189)	(88,076)
Other liabilities		(1,508)	(1,597)
Investment in SIDCO, net	$	669	669

(In thousands)

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO entered into a promissory note with the pharmaceutical company for the acquisition of a land facility for an amount of $1,597. Pursuant to the terms of the promissory note, the parties agreed upon as follows:

- SIDCO shall use the proceeds of the promissory note for the sole purpose of acquiring an additional land facility for an amount of $1,495 and redeemed the outstanding portion of a previous promissory note amounting to $102 at the closing date.
- SIDCO shall not be obligated to pay the unpaid balance of principal hereunder, and this obligation shall become null and void, in the event the pharmaceutical company terminates early the lease and option agreement entered within.
- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

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 blended within PRIDCO's financial statements.

(10) Accounts Payable and Other Accrued Liabilities

Accounts payable and other accrued liabilities as of June 30, 2002 and 2001 consist of the following:

	June 30, 2002			
	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Total reporting entity
Account payable	$ 22,119	—	—	22,119
Salary and related accruals	10,251	—	—	10,251
Environmental reserve	1,190	—	—	1,190
Accrued liabilities	7,085	—	322	7,407
Deposits	9,863	—	—	9,863
Incentives	—	4,022	—	4,022
	$ 50,508	4,022	322	54,852

(In thousands)

	June 30, 2001			
	Puerto Rico Industrial Development Company	Puerto Rico Industrial Incentives Fund, Inc.	Puerto Rico Industrial Investment Company	Total reporting entity
Account payable	$ 20,438	—	—	20,438
Salary and related accruals	8,747	—	—	8,747
Environmental reserve	920	—	—	920
Accrued liabilities	6,681	—	418	7,099
Deposits	9,209	—	—	9,209
Incentives	—	13,757	—	13,757
	$ 45,995	13,757	418	60,170

(11) Lines of Credit and Long-Term Debt Activity

Lines of credit and long-term debt activity for the years ended June 30, 2002 and 2001 was as follows:

	June 30, 2002					
	Puerto Rico Industrial Development Company					
	Beginning balance	Additions	Accretion	Reductions	Ending balance	Due within one year
Notes payable to GDB	$ 41,635	18,034	38	(75)	59,632	59,250
Obligations under capital leases	1,851	10	—	(703)	1,158	657
Bonds payable	189,486	—	3,277	(8,730)	184,033	6,515
Total	$ 232,972	18,044	3,315	(9,508)	244,823	66,422

	Puerto Rico Industrial Investment Company					
	Beginning balance	Additions	Accretion	Reductions	Ending balance	Due within one year
Amounts due to commercial banks:						
Loan payable	$ —	8,146	—	—	8,146	126
Notes payable	13,325	—	—	(867)	12,458	929
Total	$ 13,325	8,146	—	(867)	20,604	1,055

(In thousands)

	June 30, 2001					
	Puerto Rico Industrial Development Company					
	Beginning balance	**Additions**	**Accretion**	**Reductions**	**Ending balance**	**Due within one year**
Amounts due to GDB:						
Note payable	$ 907	40,881	—	(153)	41,635	754
Obligations under capital leases	278	1,803	—	(230)	1,851	777
Bonds payable	195,189	—	2,442	(8,145)	189,486	8,730
Total	$ 196,374	42,684	2,442	(8,528)	232,972	10,261

	Puerto Rico Industrial Investment Company					
	Beginning balance	**Additions**	**Accretion**	**Reductions**	**Ending balance**	**Due within one year**
Amounts due to commercial banks:						
Notes payable	$ 14,137	—	—	(812)	13,325	869

(In thousands)

Amounts due to Government Development Bank for Puerto Rico (GDB), Commercial Banks, and Obligations Under Capital Leases

Amounts due to GDB, commercial banks, and obligations under capital leases as of June 30, 2002 and 2001 consist of the following:

		2002	2001
Amounts due to GDB:			
Note payable to the GDB, used to finance the acquisition of industrial rental properties at Aguadilla, bearing a variable interest rate. Payable in monthly installments from $25 to $30 and collateralized by a mortgage on the land and related structures. Interest rate at June 30, 2002 and 2001 was 5.00% and 5.88%, respectively.	$	717	754
Note payable to GDB used to finance the acquisition, construction, and development of projects for additional improvements to PRIDCO's facilities. This note is due on June 30, 2003 and bears a floating rate equal to the daily weighted average rate for commercial paper notes, plus LIBOR of 125 basis point. Interest rate at June 30, 2002 was 5.00%.		58,915	40,881
Total amounts due to GDB	$	59,632	41,635
Amounts due to commercial banks:			
Note payable to a commercial bank, used to finance the construction of industrial rental properties, bearing interest at 6.8125% during the first five years and subsequently at LIBOR, payable in monthly installments of $89 through June 9, 2012. This note is collateralized by a $10,000 mortgage and bears interest of 6.8125% at June 30, 2002 and 2001.	$	7,702	8,225
Senior secured term loan facility, collateralized by a mortgage on land and capital assets, payable in monthly installments of $59 through January 23, 2012 and bearing interest at 6.625% at June 30, 2002 and 2001.		4,756	5,100
Balance carried forward	$	12,458	13,325

(In thousands)

		2002	2001
Balance brought forward	$	12,458	13,325
Loan payable to a commerical bank, used to finance the construction of industrial rental properties at Arroyo, payable in monthly installment beginning of March 1, 2003. The principal balance at March 1, 2003 is $19,100. This loan is due on March 1, 2018, with a balloon payment of $10,035 bearing interest at 6.4785% and collateralized by a mortgage on the related structure.		8,146	—
Total amounts due to commercial banks	$	20,604	13,325
Obligations under capital leases:			
Other loans including capital lease agreements, collateralized by certain properties, at interest rates ranging from 7% to 8%.	$	1,158	1,851

Debt service requirements for the amounts due to GDB, commercial banks, and obligations under capital leases are as follows:

		Due to GDB			Due to commercial banks		
		Principal	Interest	Total	Principal	Interest	Total
Year ending June 30:							
2003	$	59,250	658	59,908	1,055	1,143	2,198
2004		326	12	338	1,386	1,944	3,330
2005		56	—	56	1,482	1,869	3,351
2006		—	—	—	1,585	1,789	3,374
2007		—	—	—	1,694	1,704	3,398
2008-2012		—	—	—	10,042	7,614	17,656
2013-2017					3,360	3,324	6,684
	$	59,632	670	60,302	20,604	19,387	39,991

		Obligations under capital leases		
		Principal	Interest	Total
Year ending June 30:				
2003	$	657	58	715
2004		241	26	267
2005		260	5	265
	$	1,158	89	1,247

Lines of Credit with GDB

PRIDCO has two lines of credit with GDB to finance its Special Incentives Program. Advances together with accrued interest under the first credit facility amounted to approximately $25 million at June 30, 2002.

This credit facility bore interest at 7.29% and matured on June 30, 2002. The second line of credit advances along with accrued interest, amounted to approximately $5 million as of June 30, 2002, bearing interest at 5% and maturing on June 30, 2004.

Bonds Payable

As required by the Trust Indenture, as amended, dated July 1, 1964, between PRIDCO and State Street Company, N.A. (the Trustee), PRIDCO has pledged and assigned to the Trustee the gross revenue from certain properties (known as trustee properties) for the payment of the Refunding and General Purpose Revenue Bonds, Series 1991 to 1997. In the event that the gross revenue 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.

During fiscal year 1998, PRIDCO issued approximately $150 million in refunding bonds and general purpose revenue bonds. The proceeds of the fiscal year 1998 bond issuance destined to refund the previous outstanding bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, all the series prior to 1997, except for the series 1991 serial and capital appreciation bonds, were considered defeased and the liability for those bonds was considered extinguished and have been removed from the accompanying basic financial statements.

In connection with the extinguishments of the previously outstanding bonds, a deferred asset of approximately $4,821,000 was recognized at the bond issuance date. At June 30, 2001, the deferred asset related to the extinguishments of debt, which is included in other within other assets in the accompanying balance sheets, amounted to approximately $662,000 (none in 2002), and is being amortized over the average lives of the 1997 bonds following a method substantially equivalent to the interest method.

In addition, in connection with the fiscal year 1998 bond issuance, certain debt issue costs amounting to approximately $2,718,000 were deferred. These deferred issue costs are being amortized over the average lives of the 1998 bonds following a method substantially equivalent to the interest method. At June 30, 2002 and 2001, debt issue costs amounted to approximately $1,923,000 and $2,110,000, respectively, and are included within other assets in the accompanying balance sheets.

(Continued)

(In thousands)

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2002 and 2001 are as follows:

		2002	2001
Revenue refunding bonds and general purpose revenue bonds:			
Series 1991:			
Serial bonds, 7.30% to 7.75%, due semiannually through July 1, 2007	$	13,980	20,580
Capital appreciation bonds, implicit interest rates of 7.75% to 8.05%, due on July 1, 2002 through July 1, 2012		22,352	20,682
Series A 1997:			
Serial bonds, 6.00%-6.50%, due semiannually beginning on July 1, 1999 through July 1, 2007		15,885	18,015
Term bonds, 6.50%, due on July 1, 2011		23,780	23,780
Term bonds, 6.65%, due on July 1, 2015		54,845	54,845
Term bonds, 6.70%, due on July 1, 2021		21,405	21,405
Capital appreciation bonds, implicit interest rate of 6.68%-6.71%, due on July 1, 2008 through July 1, 2009		14,876	13,969
Series B 1997, 5.375%, due on July 1, 2016		16,910	16,910
		184,033	190,186
Less unamortized bond discount		—	(700)
		184,033	189,486
Less current maturities		(6,515)	(8,730)
	$	177,518	180,756

Series 1991 and 1997 of the capital appreciation bonds will appreciate to a maximum of $26,860 and $22,640, respectively, through their corresponding maturity dates.

(In thousands)

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2002, are as follows:

		Principal	Interest	Total
Year ending June 30:				
2003	$	6,515	12,269	18,784
2004		6,666	12,119	18,785
2005		6,840	11,936	18,776
2006		7,057	11,718	18,775
2007		7,322	11,448	18,770
2008-2012		46,680	49,246	95,926
2013-2017		69,825	17,155	86,980
2018-2022		33,128	2,936	36,064
	$	184,033	128,827	312,860

(12) 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 under the terms of 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 55 years of age and have completed at least 30 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation or if they have attained 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 nonoccupational disability up to a maximum benefit of 50% of the average compensation. However, for nonoccupational disability, a member must have at least 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 1.5% 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.

(In thousands)

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.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employees' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

Contribution requirements are established by law and are as follows:

Commonwealth	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600
	8.275% of gross salary over $6,600
Hired on or after April 1, 1990	8.275% of gross salary

PRIDCO's contractually required contributions for the years ended June 30, 2002, 2001, and 2000 amounted to approximately $1,843,000, $1,834,000, and $1,808,000, respectively. The percentages of PRIDCO's required contributions were equal to the ones actually made to the System for the years ended June 30, 2002, 2001, and 2000.

The Company follows the provisions of GASB 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.

During 2001, an early retirement plan (the Plan) was offered by the Company to all eligible employees. The cost of this early retirement initiative amounted to approximately $223,000 and was recorded in current year's operations. A total of 15 employees accepted the early retirement option. To be able to elect the early retirement option, participants had to have completed at least 25 years of creditable service to be entitled to receive 65% of the average compensation. The description of the economic costs incurred for the implementation of the Plan is as follows:

- The amount of cash entitled to receive as annuity benefit from the System for a maximum period of five years upon the commencement date, as defined therein;
- Employee and employer contribution for each participant within the Plan using the salary base at the retirement date as defined in the Plan; and
- Medical insurance coverage contribution.

No actuarial costs were considered necessary for the implementation of the early retirement plan since the economic constraints were only those previously taken into consideration.

Additional information on the System is provided in its financial statements for the years ended June 30, 2002 and 2001, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

(13) Construction Program

For the fiscal year ending June 30, 2003, PRIDCO estimates to invest approximately $67 million for construction, land acquisition, and development. The investment in property will be financed through internally generated funds, federal grants, legislative infrastructure incentives, and external financing sources.

(14) 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 Puerto Rico'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 or Superfund) and other federal legislation. CERCLA establishes procedures and standards for responding to the release of hazardous substances, pollutants, and contaminants.

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

Financial responsibility clean-up costs has been and/or is being undertaken 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.

Vega Alta Site

EPA notified PRIDCO that it is a PRP for volatile organic compounds in the groundwater and soil at this site, along with PRPs that are or have been tenants of PRIDCO at the Vega Alta Industrial Park.

On September 23, 2002, PRIDCO entered into a Settlement Agreement and Release with two of the industrial PRPs (the Agreement), which provided that one of those PRPs, a current tenant, would be granted economic incentives pursuant to a special incentives by importance of project contract and the industrial PRPs committed to continue implementing all remedial activities and to defend, hold harmless, and indemnify PRIDCO with respect to claims by the government and third parties. Included in the protection provided to PRIDCO in the agreement by the industrial PRPs, the performance of whose obligations is guaranteed by the tenant's corporate parent, is indemnification of claims against PRIDCO by the federal government, including EPA, both for remedial activities and for all past and future oversight and administrative costs.

In view of the agreement, the Company does not foresee significant additional legal liability, if any, with respect to this site.

Guayama Site

PRIDCO owns property, which comprises a portion of the site known as the Fibers Public Supply Wells Superfund Site in Guayama. EPA listed the Fibers Public Supply Wells Site in Guayama, Puerto Rico, on its NPL of inactive hazardous waste disposal sites under Superfund when public supply wells operated by PRASA were contaminated. A wholly owned subsidiary of PRIDCO holds title to property which comprises a portion of the Fibers Public Supply Wells Site, having acquired the land, as is, from the Puerto Rico Land Administration in 1984.

Pursuant to EPA orders, private industrial parties, which at various times have owned and/or operated manufacturing facilities at the site have performed investigations of environmental conditions at the site. In May 1998, EPA required an expanded investigation of the site and informed PRIDCO that (as site owner) it was a potentially responsible party under CERCLA along with the private parties. In 1991, when EPA selected a groundwater remedy for the site, it formally notified PRIDCO to participate in the remedy to be implemented by the private parties. The selected remedy was a groundwater pump and treatment system, the construction and operation of which was estimated to cost $10 million (present valued) over 30 years. The private industrial parties, but not PRIDCO, entered into a consent decree to perform the remedial design/remedial action.

PRIDCO declined to participate financially in the performance of the remedy where viable current or former tenants existed to perform the remedy, although PRIDCO offered to provide in-kind assistance to the industrial parties to facilitate coordination with the Puerto Rico agencies. In 1993, PRIDCO entered into an agreement with the private industrial parties performing the remedy agreeing to provide $465,000 of in-kind services to support the implementation of the remedy, and PRIDCO has been carrying out that agreement with the objective of protecting the property and PRIDCO's rights as a landowner without admitting any fact, responsibility, faults, or liability in connection with the site. PRIDCO has learned from EPA that the private industrial responsible parties are installing the remedy. Under that agreement, the private industrial responsible parties assumed payment of past response costs at the site including $150,000, plus interest, which EPA has sought to recover from PRIDCO. The implementation of the remedy is in progress.

Toa Baja Site

In 1993, it was discovered that an industrial party, which leased property from PRIDCO in Toa Baja, had abandoned the property and left behind wastes which, when sampled, were determined to be hazardous. Following the abandonment, PRIDCO shipped hazardous wastes from the property.

PRIDCO learned that EPA had retained an environmental consultant to perform an assessment as part of EPA's evaluation of the site for potential inclusion on the NPL. In order to preempt that possibility, PRIDCO offered to undertake, in lieu of the EPA consultant, the remainder of the investigation if EPA determines that additional investigation is necessary. It is PRIDCO's intention to perform any necessary technical measures rather than having the site included on the NPL. To that end, PRIDCO is implementing investigative activities at the property pursuant to a Statement of Work, which was reviewed and commented on by EPA. In the event that the data derived during the investigation demonstrates the need for removal or remedial measures before the property can be returned to industrial or commercial uses, PRIDCO has indicated its willingness to discuss with EPA an appropriate consent order governing any such removal or remedial work.

Other Sites

In addition to the cases outlined above, PRIDCO has taken vigorous actions to identify any other potential claims or liability arising from environmental deficiencies and has provided in the accompanying balance sheets as of June 30, 2002 and 2001, 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 risks 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.

Nonenvironmental Matters

PRIDCO is a party to certain other lawsuits resulting from the normal course of business, including but not limited to labor, torts, and breach of contract. The management believes that it has a reasonable possibility of prevailing in these cases. However, and taking into consideration that discovery has not been initiated and/or completed by the parties, the management is not in a position to assess the probable outcome of these cases.

Risk Management

The treasury department of PRIDCO is responsible of assuring that PRIDCO's property is properly insured. Annually, the treasury department in conjunction with other departments of PRIDCO compiles the information of all property owned and its respective market value. After evaluating this information, it is submitted to the Area of Public Insurance at the Treasury Department of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

(15) Phase-Out of Section 936 of U.S. Internal Revenue Code

All of PRIDCO's revenue is generated within the Commonwealth, which exposes the Company to geographical risk. A significant portion of revenue is derived from U.S. mainland companies, most of which operate in Puerto Rico under Section 936 of the U.S. Internal Revenue Code. The benefits of Section 936 are subject to a 10-year phase-out period which commenced in 1996 (1996 Amendments). PRIDCO does not believe there will be significant short- or medium-term material adverse effects on Puerto Rico's economy as a result of the enactment of the 1996 Amendments. PRIDCO further believes that the phase-out period allows sufficient time to implement additional incentive programs to safeguard Puerto Rico's competitive position.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in Cash and Sinking Fund per Trust Indenture

Year ended June 30, 2002
(In thousands)

				State Street Trust Indenture Sinking Fund			
		Total	General Fund	Revenue Fund	Interest	Principal	Reserve account
Balance at June 30, 2001	$	52,388	18,540	—	5,127	5,370	23,351
Cash provided by operating activities		7,216	(11,640)	18,856	—	—	—
Sale of property and equipment and land held for improvement or sale		9,731	9,731	—	—	—	—
Additions to property and equipment and land held for improvement or sale		(39,190)	(39,190)	—	—	—	—
Cash receipts retained by Trustee for sinking fund requirements		—	—	(18,856)	11,110	7,746	—
Payment of bonds, due on July 1, 2001 and January 1, 2002		(8,730)	—	—	—	(8,730)	—
Payment of interest		(11,959)	(1,893)	—	(10,066)	—	—
Accretion of U.S. Treasury bond strips held by Trustee		—	(1,465)	—	—	—	1,465
Proceeds from notes and loans payable		18,034	18,034	—	—	—	—
Payment of notes and loans payable		(778)	(778)	—	—	—	—
Contributions received from the Commonwealth government and federal agencies		27,653	27,653	—	—	—	—
Interest collected		2,546	2,546	—	—	—	—
Net collections from component units		1,159	1,159	—	—	—	—
Balance at June 30, 2002	$	58,070	22,697	—	6,171	4,386	24,816
Balance at June 30, 2002 represented by:							
Cash and cash equivalents and available for operations	$	22,697	22,697	—	—	—	—
Cash and certificates of deposit held by the Trustee		10,557	—	—	6,171	4,386	—
Investment in U.S. Treasury bond strips, at accreted cost, held by the Trustee (market value $26,831)		24,816	—	—	—	—	24,816
	$	58,070	22,697	—	6,171	4,386	24,816

See accompanying independent auditors' report.

APPENDIX III

[Proposed Form of Opinion of Bond Counsel]

July 30, 2003

Puerto Rico Industrial Development Company
San Juan, Puerto Rico

Ladies and 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 its Board of Directors (the "Board") in authorizing the execution and delivery of the Trust Indenture (hereinafter mentioned), and certified copies of the proceedings of the Board, 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 2003 Bonds"):

$135,765,159.20
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
GENERAL PURPOSE REVENUE BONDS, SERIES 2003

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 resolution of the Company adopted in connection with the issuance of the Series 2003 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 2003 Bonds have been duly authorized and issued for the purpose of providing funds for the repayment of all of the Company's line of credit for capital improvements with Government Development Bank for Puerto Rico, to deposit moneys in the Bond Service Account to be applied to pay interest on the outstanding bonds and to provide additional funds for the construction of industrial facilities. The Series 2003 Bonds are valid and binding obligations of the Company payable from the special fund created by the Trust Indenture hereinafter mentioned 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 U.S. Bank Trust National Association, as successor trustee, has been authorized, executed and delivered for the security of the bonds issued thereunder, and is a valid and binding instrument.

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 2003 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 2003 Bonds are payable only from funds of the Company.

6. Interest on the Series 2003 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 2003 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 2003 Bonds (i) by gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of the Commonwealth at the time the gift is made and (ii) by death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (x) a resident of Puerto Rico and (y) 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 2003 Bond may be subject to income tax under the P.R. Code for taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of the Commonwealth.

10. Interest on the Series 2003 Bonds received by, or “original issue discount” (within the meaning of the Code) accrued to an individual who is a bona fide resident of Puerto Rico during the entire taxable year in which such interest is received or “original issue discount” is accrued, 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 2003 Bonds received by, or “original issue discount” (within the meaning of the Code) accrued to, a corporation (i) organized under the laws of the Commonwealth or (ii) otherwise constituting a foreign corporation under the Code, is not subject to income taxation under the Code provided such interest or original issue discount is not effectively connected, or treated as effectively connected, with or attributable to the conduct of a trade or business within the United States by such corporation.

12. Interest on the Series 2003 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 on its worldwide income will generally be subject to federal income tax on any gain realized upon the sale or exchange of the Series 2003 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 2003 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 Series 2003 Bonds do not constitute inventory in the hands of such individual.

14. The transfer of the Series 2003 Bonds by death or gift will not be subject to estate or gift tax under the Code in the case of decedents or donors who, at the time of death or gift, are (i) residents of Puerto Rico and (ii) (x) United States citizens that acquired such citizenship solely by reason of birth or residence in Puerto Rico or (y) not a United States citizen.

The P.R. Code does not provide rules with respect to the treatment of the excess, if any, of the amount due at maturity of a Series 2003 Bond over its initial offering price (the "Accretion Amount"). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, the Accretion Amount is treated as interest.

Prospective owners of the Series 2003 Bonds, including but not limited to financial institutions, should be aware that ownership of the Series 2003 Bonds may result in having a portion of their interest and other expenses attributable to interest on the Series 2003 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 Series 2003 Bonds.

Respectfully submitted,

[To be signed "Pietrantoni Méndez & Alvarez LLP"]

[Proposed Form of Opinion of Bond Counsel]

July 30, 2003

Puerto Rico Industrial Development Company
San Juan, Puerto Rico

Ladies and 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 its Board of Directors (the "Board") in authorizing the execution and delivery of the Trust Indenture (hereinafter mentioned), and certified copies of the proceedings of the Board, 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 2003 Bonds"):

$25,915,000
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
REFUNDING REVENUE BONDS, SERIES 2003

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 resolution of the Company adopted in connection with the issuance of the Series 2003 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 2003 Bonds have been duly authorized and issued for the purpose of providing funds to refund $10,725,000 of the Company's outstanding General Purpose Revenue Bonds, Series 1991, and $14,694,487.02 of the Company's outstanding Refunding Revenue Bonds, Series 1991. The Series 2003 Bonds are valid and binding obligations of the Company payable from the special fund created by the Trust Indenture, hereinafter mentioned, 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 U.S. Bank Trust National Association, as successor trustee, has been authorized, executed and delivered for the security of the bonds issued thereunder, and is a valid and binding instrument.

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 2003 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 2003 Bonds are payable only from funds of the Company.

6. Interest on the Series 2003 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 2003 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 2003 Bonds (i) by gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of the Commonwealth at the time the gift is made and (ii) by death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (x) a resident of Puerto Rico and (y) 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 2003 Bond may be subject to income tax under the P.R. Code for taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of the Commonwealth.

10. Interest on the Series 2003 Bonds received by, or “original issue discount” (within the meaning of the Code) accrued to an individual who is a bona fide resident of Puerto Rico during the entire taxable year in which such interest is received or “original issue discount” is accrued, 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 2003 Bonds received by, or “original issue discount” (within the meaning of the Code) accrued to, a corporation (i) organized under the laws of the Commonwealth or (ii) otherwise constituting a foreign corporation under the Code, is not subject to income taxation under the Code provided such interest or original issue discount is not effectively connected, or treated as effectively connected, with or attributable to the conduct of a trade or business within the United States by such corporation.

12. Interest on the Series 2003 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 on its worldwide income will generally be subject to federal income tax on any gain realized upon the sale or exchange of the Series 2003 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 2003 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 Series 2003 Bonds do not constitute inventory in the hands of such individual.

14. The transfer of the Series 2003 Bonds by death or gift will not be subject to estate or gift tax under the Code in the case of decedents or donors who, at the time of death or gift, are (i) residents of Puerto Rico and (ii) (x) United States citizens that acquired such citizenship solely by reason of birth or residence in Puerto Rico or (y) not a United States citizen.

The P.R. Code does not provide rules with respect to the treatment of the excess, if any, of the amount due at maturity of a Series 2003 Bond over its initial offering price (the “Accretion Amount”). Under the current administrative practice followed by the Puerto Rico Department of the Treasury, the Accretion Amount is treated as interest.

Prospective owners of the Series 2003 Bonds, including but not limited to financial institutions, should be aware that ownership of the Series 2003 Bonds may result in having a portion of their interest and other expenses attributable to interest on the Series 2003 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 Series 2003 Bonds.

Respectfully submitted,

[To be signed “Pietrantoni Méndez & Alvarez LLP”]

APPENDIX IV

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

Valuation Date	2017	2018
July 30, 2003	$2,463.65	$2,324.55
January 1, 2004	$2,516.80	$2,375.15
July 1, 2004	$2,581.60	$2,436.90
January 1, 2005	$2,648.05	$2,500.25
July 1, 2005	$2,716.25	$2,565.30
January 1, 2006	$2,786.20	$2,632.00
July 1, 2006	$2,857.95	$2,700.40
January 1, 2007	$2,931.55	$2,770.60
July 1, 2007	$3,007.00	$2,842.65
January 1, 2008	$3,084.45	$2,916.55
July 1, 2008	$3,163.85	$2,992.40
January 1, 2009	$3,245.35	$3,070.20
July 1, 2009	$3,328.90	$3,150.05
January 1, 2010	$3,414.65	$3,231.95
July 1, 2010	$3,502.55	$3,315.95
January 1, 2011	$3,592.75	$3,402.15
July 1, 2011	$3,685.25	$3,490.65
January 1, 2012	$3,780.15	$3,581.40
July 1, 2012	$3,877.50	$3,674.50
January 1, 2013	$3,977.35	$3,770.05
July 1, 2013	$4,079.75	$3,868.05
January 1, 2014	$4,184.80	$3,968.65
July 1, 2014	$4,292.60	$4,071.80
January 1, 2015	$4,403.10	$4,177.70
July 1, 2015	$4,516.50	$4,286.30
January 1, 2016	$4,632.80	$4,397.75
July 1, 2016	$4,752.10	$4,512.10
January 1, 2017	$4,874.45	$4,629.40
July 1, 2017	$5,000.00	$4,749.75
January 1, 2018		$4,873.25
July 1, 2018		$5,000.00