

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT

Background and History

The Puerto Rico Industrial Development Company (“PRIDCO” or the “Company”) is a government-owned corporation established in 1942 through Act No. 188 of May 11, 1942, as amended (the “Act”) with the mission to promote Puerto Rico as an investment destination for companies and industries worldwide. The Company was created primarily to develop industrial parks and buildings to attract manufacturing operations from U.S. companies.

Until 1997, PRIDCO’s efforts in fostering Puerto Rico’s economic development were complemented by the activities of the Economic Development Administration (“EDA”). The EDA was an investment promotion agency of the Commonwealth of Puerto Rico in charge of attracting new businesses within manufacturing and services sectors. These efforts transformed the Puerto Rican economy from an agricultural model to a manufacturing powerhouse. On January 1, 1998, in accordance with Act No. 203 of December 29, 1997, the 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 in accordance with the Executive Reorganization Act of 1993 Art. 1 Reorganization Plan Num. 4, June 22, 1994.

To accomplish its mission, PRIDCO maintains a continuing infrastructure development program, which includes the leasing or sale of facilities to qualified private and public enterprises and the construction of industrial facilities for lease. In addition, PRIDCO disburses legislative appropriations in accordance with various special economic incentives programs to assist manufacturers in offsetting allowable start-up costs, expansion costs and the establishment of research and development activities.

As the official investment promotion agency, PRIDCO continues to attract investment within key sectors like pharmaceuticals, biotechnology, medical devices, information technology, aerospace, and apparel, among others. To accomplish this, PRIDCO’s value adding offerings include unique tax and economic incentives for companies seeking to establish or expand operations on the Island, business intelligence, facility selection, project management support, assistance with regulatory and permitting processes by providing a one-stop customer service option, and a wide range of modern industrial parks and sites with relevant infrastructure.

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 lend 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.

Personnel

As of June 30, 2021, PRIDCO had 56 permanent employees, 29 of which hold managerial positions, and 27 are members of the Puerto Rico Industrial Development Company Independent Employees Union.

Organization Focus

During the past twelve years, PRIDCO has relied exclusively on a self-financed operational program based on annual strategic planning in order to adapt and compete within the global economy. New opportunities and challenges as well as cost reductions and efficiencies comprise the main objectives within its strategic plan.

Industrial Facilities

PRIDCO develops different types of facilities, including conventional structures, custom-made buildings fitted to meet clients' needs, and industrial parks for lease and sale to public and private enterprises. As of June 30, 2021, PRIDCO owned 23,097,456 square feet of industrial space, of which 15,921,797 square feet were under lease agreements and 3,965,026 square feet were vacant. Of the total vacant space, 2,040,581 square feet were available for lease and 1,924,445 square feet were reserved for prospective tenants for future negotiations. The remaining 3,210,633 square feet of industrial space have restrictive conditions including environmental issues.

General-purpose factory buildings and special industrial buildings were built on sites with access to adequate transportation infrastructure, international and regional airports, public utilities, and telecommunication services. Such buildings were constructed according to local and federal building codes and modern industrial standards. Tenants may readily install or construct, at their own cost, special feasible improvements, such as air conditioning and sprinkler systems, among other improvements.

The Company may perform a variety of real estate transactions, including leasing and selling of existing properties and construction of facilities with a pre-agreed cost reimbursement or buy leaseback 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.

The useful life of PRIDCO's buildings is stated at 50 years for accounting purposes, although PRIDCO renovates its facilities periodically to generate revenue while promoting local economic

activity. PRIDCO's Property Administration Office regularly inspects the industrial facilities to assess their condition and verify whether repair and maintenance work is necessary. PRIDCO has a team of full-time facility inspectors and engineers to carry out this task.

There was no construction of new industrial facilities for the fiscal year ended on June 30, 2021.

To establish rental rates of existing facilities, PRIDCO has divided the Island into five (5) industrial zones based on their level of economic activity. Lower rental rates apply to buildings located in less developed zones to promote economic activity. The prevailing rent scale for standard buildings ranges from \$2.00 per square foot for properties located in the Zone 5 region to \$8.45 per square foot for properties located in Zone 1 region.

PRIDCO offers tenants incentivized rents estimated to be below comparable rates in the private sector as a tool for economic development. Changes to the Company's rent scales are subject to approval by PRIDCO's Board of Directors.

The following table presents, for the fiscal year ending on June 30, 2021, the amount of new leased space, the annual rental income during the life of the lease, and the average annual rental rate per square foot:

Table I - New Leases Agreements

Fiscal Year Ending June 30	Square Feet Leased	Annual Rent	Average Annual Rent Per Square Foot
2021	1,081,289	\$1,452,619	\$1.34

Square feet leased considers all types of lease contracts except for those which grant early access permits to potential tenants. Early access permits represent a temporary contractual status granted to those potential tenants that need to occupy a property in advance for specific reasons and which are in the final phase of the lease agreement approval process.

Table II below shows that during fiscal year ending June 30, 2021, PRIDCO has received proceeds from property sales amounting to \$21.3 million and has realized total losses of \$15.8 million.

Table II - PRIDCO Sales of Properties
PRIDCO SALES OF PROPERTIES
(Dollars in thousands)

Fiscal Year	Selling Price			Cost			Gain (Loss)					
	Land	Building	Total	Land	Building	Total	Land	Building	Total			
2021	\$ 4,956	\$ 16,335	\$ 21,291	\$ 15,616	\$ 21,443	\$ 37,059	-	10,660	-	5,108	-	15,768
Total	\$ 4,956	\$ 16,335	\$ 21,291	\$ 15,616	\$ 21,443	\$ 37,059	-	10,660	-	5,108	-	15,768

PRIDCO has a strict property sales policy that oversees compliance with PRIDCO's Trust Indenture (as defined below) before designating any property to its for-sale portfolio. PRIDCO's rental revenue earned from Trustee Properties has a debt coverage ratio of 1.63% for the fiscal year ending June 30, 2021.

Square feet leased considers all types of lease contracts except for those under an early access permit (discussed above).

The following table contains PRIDCO's Top 50 industrial tenants. Most of these lessees are leading companies worldwide which mainly export their goods to the U.S. and other markets.

Table III - Top Fifty Industrial Lessees
As of June 30, 2021

Rank and Company Name	Summ of Annual		
	Rent	Total Sq. Feet	No. of Leases
1 MICROSOFT P.R., INC.*	\$5,810,211.93	98,302.02	3
2 COOPERVISION, INC.*	\$2,752,635.52	509,284.30	7
3 EATON CORPORATION	\$2,568,596.74	609,057.80	21
4 HONEYWELL MOCA	\$1,675,747.08	63,756.00	1
5 USSC PRODUCTS	\$1,363,736.04	311,052.40	8
6 DEPARTAMENTO DE DESARROLLO ECONOMICO Y COMERCIO	\$1,201,419.78	56,050.08	5
7 BAXTER INTERNATIONAL, INC.*	\$1,073,542.08	318,772.80	14
8 HAMILTON SUNDSTRAND, CORP.*	\$1,013,788.32	249,260.20	14
9 FENWAL INTERNATIONAL, INC.*	\$992,449.64	271,171.20	7
10 HONEYWELL AEROSPACE*	\$979,564.68	158,466.30	2
11 EDWARDS LIFESCIENCES TECH.SARL	\$963,087.84	275,155.90	11
12 PROPPER INTERNATIONAL, INC.	\$960,125.36	375,293.50	10
13 INGERSOLL-RAND CO.	\$813,464.88	175,853.80	9
14 IRON MOUNTAIN RECORDS MGT (PR)	\$766,283.37	126,449.40	2
15 CCE CROWLEY	\$749,518.65	116,856.00	2
16 MEDTRONIC EUROPE SA	\$680,887.23	155,496.80	6
17 CCE CARDINAL HEALTH PR	\$679,167.00	106,536.00	1
18 PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY	\$661,059.96	156,250.00	1
19 CCE ALLIED LOGISTICS CORP.	\$598,536.00	93,888.00	1
20 INDUSTRIAL C & S OF PR, LLC	\$593,484.06	258,454.40	14
21 CCE COLOMER & SUÁREZ	\$587,973.60	93,888.00	1
22 NYPRO INTERNATIONAL	\$587,084.76	141,843.00	7
23 JOHNSON & JOHNSON	\$563,870.96	112,249.60	11
24 PRATT & WHITNEY	\$511,737.51	94,197.71	1
25 JOHN DEWEY COLLEGE	\$499,535.64	106,568.10	8
26 CCE DAY & NIGHT TRANSPORT	\$495,151.21	86,420.00	6
27 PALL NETHERLANDS	\$491,010.36	113,861.70	2
28 METROPOLITAN LUMBER & HARDWARE	\$378,952.86	151,987.40	12
29 CCE LAND MARINE CARGO, INC	\$366,656.67	54,319.50	1
30 CCE MISTER PRICE DIV. OF BELCA	\$357,277.05	65,706.10	3
31 SNC TECHNICAL SERVICES LLC	\$351,065.79	124,500.40	8
32 CCE ALMACENES DEL CASTILLO	\$337,158.46	55,182.00	5
33 ADVANCED MEDICAL OPTICS, INC.	\$336,125.55	99,047.70	4
34 ESSENTRA PACKAGING PUERTO RICO	\$328,608.72	83,192.08	5
35 SOFTEX PRODUCTS, INC. PR	\$314,062.32	109,092.90	6
36 ST. JUDE MEDICAL, INC.	\$311,787.54	65,905.35	3
37 GENERAL SERVICE ADMINISTRATION	\$305,003.52	11,402.00	1
38 FEDERAL EXPRESS CORP.	\$303,400.32	39,351.53	1
39 ATENTO TELESERVICIOS	\$298,877.16	54,582.58	4
40 CCL PUERTO RICO, INC.	\$292,231.18	96,076.00	2
41 C-AXIS P.R., INC.	\$285,357.24	22,647.40	2
42 THOMAS & BETTS CORPORATION	\$283,243.92	75,531.71	2
43 INCO BUSINESS FURNITURE, CORP.	\$281,937.36	43,711.23	4
44 RALPH'S FOOD WAREHOUSE, INC.	\$279,001.56	59,362.02	2
45 AXON PUERTO RICO, INC.	\$278,079.00	68,817.22	3
46 COPAN INDUSTRIES, INC.	\$274,999.92	50,000.00	2
47 CCE IMEX ZONE LOGISTIC, INC.	\$274,067.01	56,368.00	2
48 CCE U.S. CUSTOMS	\$272,810.52	60,218.00	3
49 ONE TO SEVEN, INC.	\$272,752.20	92,868.77	8
50 CCE ISLAND STORAGE, DIST., INC.	\$265,761.00	41,688.00	1
	\$37,682,887.07	6,815,992.90	259

* Tenant occupies property(ies) with lease contract(s) tied to construction-lease agreement(s) financed with private financial institution(s).

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

Table IV – PRIDCO Sales and Construction
 Analysis of Industrial Buildings
 (Excluding undeveloped land)
 Square Feet Sold v. Square Feet Constructed
 (Dollars in thousands)

Fiscal Year	Sq. Ft. Sold	Proceeds from Property Sales	Sq. Ft. Constructed	Investment
2021	254,010	\$ 21,291	-	\$ -
Total	254,010	\$ 21,291	-	\$ -

Industrial Parks

PRIDCO has nearly 189 industrial parks, of which 103 are medium and large-sized parks with over four lots of an average size of 84,612 square feet. PRIDCO’s industrial parks provide the necessary infrastructure (*i.e.*, water, sanitary, electrical, power, telephone, access, etc.) for light and medium industrial operations, thus simplifying the process of establishing new businesses. Most industrial parks are located at strategically selected sites in coordination with the Puerto Rico Planning Board, General Permits Office (“OGPe”), infrastructure agencies, state and federal regulatory agencies, and other pertinent entities. Accessibility to main highways and expressways, seaports and airports are key aspects for site selection. Clients are assured, for operational purposes, of a full infrastructure conditioned property before taking possession.

PRIDCO also assists private entities in the development of private industrial projects contributing with technical and advisory assistance. PRIDCO’s Capital Improvements Program considers the acquisition and development of land for future industrial demand.

PRIDCO is currently in negotiations for the expansion of companies such as CCL, Terrumo and Coopervision.

Foreign-Trade Zone

PRIDCO is the grantee of Foreign-Trade Zone No. 7 (“FTZ No. 7”) since 1960 and is one of three existing general-purpose foreign trade zone projects in the Island (“GPZ”). PRIDCO’s Foreign Trade Zone (“FTZ”) project is comprised of 136 PRIDCO-owned industrial parks and five privately owned industrial parks totaling 4,550 acres of FTZ designated land in 78 municipalities. Activities performed in the zone are those permitted by 19 U.S.C. § 81(c) which include manufacturing, warehousing, and distributing goods with foreign-sourced material, allowing the operator to defer the payment of duties while in the zone. Other savings are those contemplated in local legislation to exempt property tax on

inventory maintained within an authorized zone, and municipal license tax exemptions on exports from the zone to foreign countries.

General Purpose Zones. During fiscal year 2020–2021, PRIDCO’s general purpose zone served 25 distribution and manufacturing firms on a continuous basis, retaining 963 full-time FTZ-related employees and generating direct annual payrolls of \$47,975,938. Operators received merchandise amounting to \$1,964,494,892 and shipped out a total of \$1,915,662,195 of merchandise. Activities performed included warehousing and distributing vehicles, veterinarian products, chemicals, contact lenses, clothing, electronics, hardware products, wood, electro-domestic appliances, tires, inner tubes and, batteries, and contract-manufacturing pharmaceutical products.

Subzones. FTZ No. 7 served 10 manufacturing subzone firms and four (4) warehouse/storing subzones during fiscal year 2020–2021. All of them used the subzones on a continuous basis, retaining 6,384 full-time FTZ-related employees and generating direct annual payrolls totaling \$367,746,323. Subzone operators received \$10,566,247 in merchandise and shipped out \$4,997,850,741 in merchandise. Activities performed in the subzones included warehousing and distributing petroleum derivatives and vehicles; manufacturing pharmaceutical products, herbicide products, and biotechnology products; and contract-manufacturing pharmaceutical products.

PRIDCO charges an annual fee to those companies operating within its zone grant. The fee is not related to the regular lease agreement obligations (PRIDCO’s core business). Current rates are: \$10,000.00 for GPZ operators and \$25,000.00 for sub-zone operators. Annual billing for fiscal year 2020–2021 amounted to \$595,000.

DEBT AND CAPITAL ACCOUNTS

PRIDCO obtains funds for capital improvements from self-generated funds, loans, and government contributions. In August 2003, PRIDCO issued General Purpose Revenue and Refunding Bonds (the “Bonds”) amounting to \$162.2 million. The proceeds of this issuance were used to, among other things, (i) refund the Series 1991 Bonds then outstanding in the amount of \$25.6 million; (ii) pay notes payable to the Government Development Bank for Puerto Rico in the amount of \$78.7 million; (iii) provide \$52.1 million for the construction of industrial facilities; and (iv) pay \$4.7 million for the issuance costs and deposit in the debt service reserve account.

The following table sets forth PRIDCO’s Debt and Net Assets during the fiscal year ending June 30, 2021.

Table V – Debt and Net Assets
(Fiscal Year ending June 30)
(Dollars in thousands)

	2021
<u>DEBT</u>	
Bonds	\$ 149,856
<u>Other</u>	560,027
Total Debt	<u>\$ 709,883</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	\$ 350,459
Restricted	3,641
Unrestricted	(372,035)
Total Net Assets	<u>\$ -17,935</u>
 TOTAL DEBT AND NET ASSETS	 <u>\$ 691,948</u>

Includes debt incurred by PRIDCO subsidiaries or guaranteed by PRIDCO.

Total Assets

As of June 30, 2021, PRIDCO's total assets were approximately \$630 million. Net Property and Equipment amounted to approximately \$539 million, including land, land held for improvement, construction in progress, industrial buildings and improvements, administration buildings and improvements, machineries, equipment, furniture, and vehicles.

PRIDCO's fixed assets are stated at cost, with property and equipment depreciated over their estimated useful lives. It is PRIDCO's opinion that market value of property and land are higher than their respective book value.

On August 1, 2016, PRIDCO failed to transfer payment of principal and interest when due on the Bonds. As result, payments of principal and interest due were paid out of reserve funds held by the Trustee until June 2, 2018.

As of June 30, 2021, the balance in the Sinking Fund Reserve Account was \$1.8 million, which is under the minimum required balance of \$16.3 million.

As of June 30, 2021, PRIDCO holds \$1.8 million in a money market deposited in a sinking fund reserve account with U.S. Bank Trust National Association (the "Trustee"), that may be used for the payment of Bond debt service and sinking fund requirements. PRIDCO suspended their deposits in the sinking fund accounts, consequently, repayments of the Bonds have not been honored from the

required sinking fund reserve account during fiscal year 2021. Refer to the subsequent events below for further information on the status of debt service payments under a Standstill Agreement (defined below).

OPERATING RESULTS AND RATIOS

Trusted Properties are those whose gross rents are pledged to the payment of the Bonds as per the companies Trust Indenture. Eligible Properties are those which PRIDCO may at any time, and under certain circumstances, classify as Trusted Properties.

The following table shows gross revenues of the Trusted Properties and Eligible Properties, Principal and Interest Requirements on the Bonds, and of [such gross revenues to Principal and Interest Requirements for the fiscal year ending June 30, 2021.

Table VI – Historical Debt Coverage Ratios
(Fiscal Year ending June 30)
(Dollars in thousands)

	2021
Rental Revenue Collected – Trustee Properties	\$ 29,627
Certain Proceeds from Sale of Properties ¹	4,258
Interest on Reserve Account	(202)
Total	\$ 33,683
Rental Revenues Collected – Eligible Properties	24,565
Adjusted Total	\$ 58,248
Maximum Principal and Interest Requirements	\$ 18,150
<u>Debt Coverage Ratios</u>	
Trustee Properties	1.63%
Trustee and Eligible Properties	2.99%
Trustee Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	1.86%
Trustee and Eligible Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	3.21%

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

The debt coverage ratios, include gross rental revenues from Eligible Properties and are shown for illustrative purposes only. The only revenues purported to be pledged to the payment of the Bonds are gross revenues of the Trustee Properties. In addition, the table 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 the purpose of compliance with the additional bond tests contained in the Trust Indenture. PRIDCO reserves all rights to contest any and all purported security interests granted under the Trust Indenture in pending or potential litigation and restructuring proceedings.

During the fiscal year ending June 30, 2021, the debt coverage ratio was 1.63.

The following Consolidated Statement of Operations illustrates selected financial data for the fiscal

year ending on June 30, 2021. This data is derived from PRIDCO's consolidated financial statements, which have been audited by independent public accountants.

The following table summarizes PRIDCO's consolidated statement of operations. Rental income in the following table represents all rent amount due or billed during the indicated period, while gross revenue available for Principal and Interest requirements consists of actual collections of rentals of Trustee and Eligible Properties.

Table VII – Historical Consolidated Statement of Operations
(Fiscal Years ending June 30)
(Dollars in thousands)

	2021
REVENUES	
Rental income from Trustee and Eligible Properties	\$ 53,324
Net Investment Income	63
Interest Income	33
Grants and Contributions	1,942
Other Revenues	6,531
Total Revenues	61,893
EXPENSES	
Salaries and Wages	5,407
Pension Expense	16,745
Other Post-employment Benefits	720
Administrative and General	19,343
Custodial Credit Loss on Deposits with the Economic Development Bank	14
Depreciation and Amortization	16,165
Maintenance and Repairs	3,688
Net Loss on Sale of Property & Insurance	15,768
Impairment Loss on Investments and Capital Assets	3,313
Sub Total Expenses	81,163
FINANCE CHARGES	
Interest Expenses	12,162
Total Finance Charges	12,162
Total Expenses	93,325
NET INCOME	(31,432)
Net Assets (Deficit) beginning of year as restated	\$ 13,497
Net Assets (Deficit) end of year	\$ (17,935)

As of June 30, 2021, the net deficit of \$17.9 million are composed of \$350.4 million invested in capital assets, net of related debt, restricted deposits amounting to \$3.6 million, and a deficit of \$372 million.

PRIDCO reported a negative change in net position of approximately \$31.4 million, an increase of \$29 million from the prior year's change in net position. This increase is the result of a decrease in total revenues amounting to \$15.5 million, an increase of total operating expenses amounting to \$11.7 million, a decrease in capital contributions amounting to \$3.9 million, and an increase in non-operating expenses of \$1.6 million.

Industrial Rentals and Collections

The following table presents PRIDCO's industrial space rentals billed and collections for the fiscal year ending on June 30, 2021:

Table VIII – Industrial Rentals Billed and Collections
(In thousands)

Fiscal Year Ending June 30,	Square Feet Billed	Rentals Billed	Rentals Collected	Collection Rate
2021	14,277	\$59,954	\$55,440	93%

For the purpose of Table IX Rentals Collected include (i) early termination penalties of contract cancelation agreements, (ii) repairs and maintenance charges to former tenants, (iii) administrative fees to tenants and other revenues that have been excluded and hereby referred to as "One Time Collections." The Adjusted Rentals Collected includes revenues from the current fiscal year and One Time Collections transactions as shown below:

Table IX - Rental Collections Details
(In thousands)

Fiscal Year Ending June 30,	Rentals Collected
2021	\$58,248

PRIDCO has a collection and eviction program that includes close monitoring of delinquent accounts and aggressive collection efforts. Under this Collection Program, clients are sent monthly bills 15 days before payment is due. The bills are due on the 1st day of the month. Clients that have not paid their rent by the 10th day of each month are sent a reminder letter. Clients that have not paid their rent by the 20th day are sent a second reminder.

Clients that have rent overdue for more than 60 days are sent an initial warning letter requesting payment within 15 days. After another 15 days grace period, a second warning collection letter is sent requesting immediate payment within five (5) days. After these five (5) days, a third letter is sent by PRIDCO's Legal Department. Consequently, after two (2) warning letters without acknowledgment from the tenant, the client is referred to PRIDCO's Legal Department and sued for eviction and collection of monies. The PRIDCO Legal Department is responsible for obtaining the eviction judgment and the Treasurer's Office for its execution.

CAPITAL IMPROVEMENTS PROGRAM

Historical Background

During the fiscal year ending June 30, 2021, all of PRIDCO's capital expenditures were used for the development and maintenance of industrial facilities, including buildings, land acquisition, and land development (primarily, site improvements). The following table summarizes the capital expenditures of PRIDCO and sources of funds for such expenditures during the fiscal year ending June 30, 2021.

Table X – Historical Capital Improvements Program
(Fiscal Year ending June 30)
(Dollars in thousands)

	2021
<u>Capital Improvements</u>	
Industrial Buildings Construction	\$ -
Industrial Land Development	-
Land Acquisition	-
Property Improvements and Other	3,399
Total	\$ 3,399
 <u>Sources of Funds</u>	
Internally Generated Funds	\$ 3,399
Government Contributions – Federal	-
Total	\$ 3,399

ENVIRONMENTAL MATTERS

The nature of PRIDCO tenants' manufacturing operations is highly susceptible to pollution obligations. PRIDCO, as owner, has the financial responsibility for cleanup costs and pollution remediation processes in case of tenants' default. Pollution remediation obligations, which include contamination, are obligations incurred to address the current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups but excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. As of June 30, 2021,

PRIDCO's liability for pollution remediation amounts to \$25.2 million. Pollution remediation is a process that can last several years and involves different stages. PRIDCO has contacted former or current tenants to compel their accountability for cleanup or pollution remediation costs; otherwise PRIDCO has assumed the responsibility. Notwithstanding, PRIDCO has been considered a responsible party in a lawsuit which is in initial stages, and in several claims at the regulating agencies level related to pollution remediation obligations. The U.S. Environmental Protection Agency ("EPA"), the Puerto Rico Department of Environment and Natural Resources ("DENR") and the Puerto Rico Environmental Quality Board ("EQB") have the oversight and the enforcement responsibility in cases of pollution.

Federal claims are covered pursuant the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") which provides broad Federal authority to respond directly to releases or threatened releases of hazardous substances that may endanger public health or the environment, and the Resource Conservation Recovery Act of 1976 ("RCRA"), which provides for proper disposal of solid waste and hazardous waste.

Agencies are authorized by law to identify parties responsible for the pollution of sites and compel the parties to remediate it.

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A definite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a series of events and activities that help to frame and define liability.

Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites, and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's financial position. However, such costs could be material to the results of operations in a future year.

SUBSEQUENT EVENTS

PRIDCO Fiscal Plan

On May 20, 2022, the Oversight Board certified its most recent fiscal plan for PRIDCO (the "Oversight Board Fiscal Plan"), which seeks to support cost reductions and improve property management resulting in a more efficient and effective government structure including the following:

- (i) Payroll Measures

- (ii) “Pay-Go” Measures
- (iii) Delinquency Rate Improvement Measure
- (iv) Expired Lease Measures
- (v) Third-Party Manager Measures
- (vi) Shared Services Measures on the MOU
- (vii) Capital Expenditures Improvement Measures
- (viii) Rent Escalation Measure
- (ix) Occupancy Process Optimization
- (x) Needs Assessment of Real Estate Information Systems
- (xi) Divestment of non-rentable properties
- (xii) Update Rental Rate Card
- (xiii) Inter-Government Real Estate Representation
- (xiv) Implementation of Fiscal Controls
- (xv) Skills and Knowhow Transfer from Consultants to Public Sector Personnel

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or, if implemented, will ultimately provide the intended results.

Expiration of Standstill Agreement and Pending Bondholder Litigation

On May 6, 2021, GoldenTree Asset Management (“GoldenTree”) commenced a legal action in the United States District Court for the District of Puerto Rico. This legal action sought to remedy PRIDCO’s purported failure to abide by its obligation to holders of PRIDCO Bonds issued in 1997 and 2003 by, among other things, not paying principal and interest on the Bonds.

GoldenTree and PRIDCO entered into a Standstill Agreement, which resulted in dismissal of the lawsuit. Under the Standstill Agreement, Golden Tree agrees to forbear from exercising any rights or remedies available with respect to the Bonds, including any further prosecution of the legal action. In exchange, PRIDCO committed to pay to the Trustee monthly interest payments on the Bonds, totaling \$672,354.38 per month. The Standstill Agreement was subsequently extended until October 31, 2022 when it expired.

Following the expiration of the Standstill Agreement, GoldenTree and related entities commenced a lawsuit against PRIDCO, AAFAF, and the Oversight Board, captioned *Crown Managed Accounts SPC – Crown/GT Segregated Portfolio et al. v. Puerto Rico Industrial Development Corp.*, Case No. 23-cv-01017. The lawsuit alleges fourteen causes of action, including:

- breach of contract on the 1997 Bonds (seeking a money judgment of \$18,717,217.19);
- breach of contract on the 2003 Bonds (seeking a money judgment of \$71,832,709.33);
- declaratory relief on PRIDCO’s debt service payment obligations;
- declaratory relief against the Oversight Board that it impermissibly deemed PRIDCO a

covered entity, refused to remove PRIDCO as a covered entity, refusing to propose a qualifying modification, and directing that the Oversight Board cannot interfere with PRIDCO's payment on its bonds;

- declaratory relief against PRIDCO, AAFAF, and the Oversight Board for violation of the Takings Clause and Due Process Clause of the U.S. Constitution;
- declaratory relief against PRIDCO and the Oversight Board for violation of the Contracts Clause;
- permanent injunctive relief requiring PRIDCO to make payments on the bonds as they come due;
- appointment of a receiver for the Trusteed Properties;
- declaratory relief that PRIDCO violated section 407 of PROMESA by paying employees that are not providing necessary services and paying an inflated management fee to DDEC;
- declaratory relief that PRIDCO must comply with the certification requirements of section 608 of the Indenture prior to selling any Trusteed Property;
- permanent injunctive relief enjoining PRIDCO from selling any Trusteed Property without comply with section 608 of the Indenture;
- declaratory relief that the Moratorium Act and EO 2016-31 are preempted by PROMESA section 303(1) and 303(3);
- declaratory relief that PRIDCO must reimburse the Trustee for funds paid from the Account held by the Trustee to pay Trustee compensation and pay the Trustee for ongoing fees and costs as provided under the Indenture; and
- breach of obligation to pay fees due under a previous Restructuring Support Agreement in the amount of \$2,000,000.00.

The lawsuit remains ongoing. PRIDCO and the Oversight Board have until March 21, 2023 to answer the complaint.

Environmental

On January 17, 2023, PRIDCO entered into a settlement agreement with the United States Environmental Agency related to Maunabo Groundwater Superfund Site amounting to \$11 million in installments, plus interest at 3.5% per annum. PRIDCO shall make payment in 28 quarterly installments of \$444,653.02 each. The first payment shall include an additional amount for interest, if any, accrued on \$11 million at the rate of 3.5% per annum from May 3, 2022 until the date three (3) months before the first payment. PRIDCO shall thereafter make 27 consecutive payments in quarterly intervals from the first payment.

Law 80-2020 - Early Retirement Program

On December 28, 2021, the United States District Court issued an order invalidating the Puerto Rico Law 80-2020, which establishes an early retirement program for the employees of the Commonwealth. On July 21, 2022, the Fiscal Oversight Management Board issued a statement to accept a proposal from the Governor of the Commonwealth to partially implement the early retirement program under Law 80-2020 and to limit implementation of the law to certain non-essential governmental employees.

Extension of Single Audit Submission

As a result of COVID-19, the United States Office of Management and Budget issued a memorandum granting various disaster relief flexibilities to reduce the burden for financial assistance. One of these flexibilities was the extension for the Single Audit submission. Awarding agencies in their capacity as cognizant or oversight agencies for audit should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum and that have fiscal year-ends through June 30, 2021 to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501, to six (6) months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing.

Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria set forth in 2 CFR § 200.520(a). (*See* 2 CFR § 200.501). For the Company, such flexibility extends the period for completion and submission of the June 30, 2021 Single Audit from its original due date of March 31, 2022, to September 30, 2022. This extension covered this Single Audit.

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona which destroyed homes, knocking out power across the entire island, and flooding streets and roads. The Governor of Puerto Rico submitted to the Government of the United States a request for a major disaster declaration and the activation of funds from the Public Assistance program of the Federal Emergency Management Agency.

On September 18, 2022, Puerto Rico was declared a major disaster area under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 48 U.S.C § 5121-5208 (the "Stafford Act"). Consistent with this declaration and the complications created by Hurricane Fiona, OMB has granted a six (6) month extension for all single audits that cover recipients in Puerto Rico and which have due dates between September 18, 2022 and December 31, 2022. This extension covers this Single Audit.