

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT

Background and History

The Puerto Rico Industrial Development Company (PRIDCO, hereafter, 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, 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 to 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. In order 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. Currently, PRIDCO hosts over 1,009 client firms generating over 80,068 direct jobs representing approximately 8.9% of Puerto Rico's total non-agricultural employment.

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.

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 Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, and the President of the Planning Board are each ex-officio members. The remaining three members are appointed by the Governor of Puerto Rico for terms of four years and confirmed by the Senate. The issuance of bonds must be authorized by resolution of the Board and approved by any of the following Board members: the President of the Government Development Bank for Puerto Rico, the Secretary of Treasury of Puerto Rico, and the President of the Puerto Rico Planning Board.

As of June 30, 2016, the following individuals were members of the Board of Directors.

Member	Occupation	Expiration Date
Alberto Bacó Bague, Chairman	Secretary of Economic Development and Commerce	Ex-officio
Melba Acosta Febo	President, Government Development Bank for PR	Ex-officio
Juan C. Zaragoza Gómez	Secretary of Treasury	Ex-officio
Luis García Pelatti	President, Planning Board	Ex-officio
Angel J. Seda	Treasurer of Wyeth Pharmaceuticals, Inc., Retired	7/01/2016
Carlos J. Bonilla	Counsel, Tax and Government Aff., Retired Lily del Caribe Inc.	11/30/2017
Vacant	n/a	n/a

As of June 30, 2016, the following were PRIDCO’s principal officers:

Antonio L. Medina-Comas - Executive Director of the Puerto Rico Industrial Development Company (PRIDCO). Prior to his government service, he was dedicated a great part of his professional career to the execution of strategic projects, with over 20 years of experience at Merck Sharp & Dohme. From the Americas, to Europe and Asia, Medina Comas has occupied several positions, most recently as Chief Finance Officer at Merck Sharp & Dome in Brazil. During his career, he had the role of Global Supply Analyst, Business Development Manager, Director of Financial Evaluation, Senior Finance Director of Manufacturing and Regional Finance Director for Central America & Caribbean. He began his career with Merck Barceloneta as Manufacturing Engineer.

His academic credentials include a Master degree in Business Administration (MBA) at Wharton School of Business from the University of Pennsylvania, and both a Master and Bachelor Degrees from the Rensselaer Polytechnic Institute in New York. Spanish is his native language and he's also proficient in English and Portuguese.

Luis E. Ortiz-Ortiz – Deputy Executive Director. Prior to joining PRIDCO, Mr. Ortiz-Ortiz was VP of Sales and Marketing, Director and Manager of Sales in pharmaceutical area with over 15 years of experience in sales and marketing area with world-class pharmaceutical companies such as Merck, Schering-Plough and Glaxo Smith Line. Mr. Ortiz-Ortiz received a Juris Doctor from the Pontifical Catholic University in Ponce, Puerto Rico, has medical studies at Cetec Medical School in Santo Domingo, DR, and a Bachelor Degree in Biology from the University of Puerto Rico.

Julio Benítez-Torres – Corporate Secretary and General Counsel. Mr. Benítez-Torres has been Legal Counselor of the Legal Counsel Office of PRIDCO since 2006. He obtained a Juris Doctor from the Interamerican University Law School, San Juan, and a Bachelor Degree in Business Administration with a Major in Accounting from the University of Puerto Rico, Cayey Campus.

Ernesto Rodríguez-Rodríguez – Chief Business Development Officer. Mr. Rodriguez-Rodriguez, prior to his government service, had a professional career working with renowned clients and brands. He began his career more than 20 years ago, as an Engineer at the Advanced Manufacturing Lab of GE Aerospace in New Jersey. Then, he worked with the Manufacturing Division of Merck & Co. in Puerto Rico and Pennsylvania, and later, as Finance Associate in New Jersey. Mr. Rodriguez-Rodriguez has a Master and a Bachelor degree in Mechanical Engineering from Rensselaer Polytechnic Institute in New York, where he got scholarships as a distinguished student. Has a Master Degree with concentration in Finance from the Haas School of Business from the University of California at Berkeley. He speaks English, Italian, French and Catalan, along with Spanish which is his native language.

Miriam Flores-De Jesús – Chief Real Estate Officer. Mrs. Flores-De Jesus has marketing and corporate professional experience from over 20 years; she worked as Independent Marketing and Corporate Professional and Microjuris.com Inc. She has a Master Degree in Marketing from the University of Phoenix, Guaynabo, PR; and Bachelor Degree in Business Administration from the University of Sacred Heart, San Juan, PR.

Jorge Morales-López – Director of the Property Administration Office. Mr. Morales-López held several administrative positions as Manager and Engineer in PRIDCO since 2003. He has a Bachelor Degree in Civil Engineering from the University of Puerto Rico, Mayagüez Campus.

Jorge G. Escalera Muñoz – Director of the Organizational Development and Human Capital Office. Mr. Escalera-Muñoz was a Human Resources Manager at Steel Services & Supplies, Inc. and Ochoa Industrial Sales Corporate.

He was Organizational Development and Human Capital Director for PRIDCO since 2006 to 2009. He has a Master Degree in Public Administration with Major in Human Resources and Labor Relations, from the University of Puerto Rico, Rio Piedras, PR and a Bachelor Degree in Business Administration with Major in Management from the Interamerican University of Puerto Rico.

Edgardo Arroyo-Ortíz – Director of the Legislative and Taxation Affairs Office. Prior to joining PRIDCO, he worked in Puerto Rico Treasury Department as Legislative Division Manager and as Tax Manager for Falcon, Sanchez & Associates. He has a LL. M (Tax Law) in Boston University, a Juris Doctor from the School of Law from the University of Puerto Rico and a Bachelor Degree in Accounting and Finance from the University of Puerto Rico.

Jamille E. Muriente-Díaz – Chief Financial Officer. She has held several financial positions as Comptroller, Sub Comptroller and Supervisor in PRIDCO since 2001. Mrs. Muriente-Díaz has a Master Degree in Accounting from Puerto Rico Ana G. Mendez Systems, (Universidad Del Este) and Bachelor Degree in Business Administration focus in Accounting from IOWA State University.

Julio López-Iglesias – Treasurer. He has held several financial positions in PRIDCO since 2006. Prior to joining PRIDCO, Mr. López-Iglesias worked as Operation Manager for J&J Distributors and Comptroller for Retirement Government System. He has a Bachelor Degree in Business Administration with a major in Accounting from the University of Puerto Rico, Rio Piedras, Puerto Rico.

Angel L. Acevedo-Santiago – Comptroller. He has held several financial positions as Manager, Supervisor and Accountant in PRIDCO since 1985. Mr. Acevedo-Santiago has a Master Degree in Finance and Accounting from Turabo University and Bachelor Degree in Business Administration with a major in Accounting from the University of Puerto Rico, Bayamon, Puerto Rico.

Sylvette M. Vélez-Conde – Chief Administrative Officer. She has held several administrative and engineering positions in PRIDCO since 2007. Mrs. Vélez-Conde has Bachelor Degree in Civil Engineering from the University of Puerto Rico, Mayagüez Campus.

Carlos Ramos-Nazario, CPA – General Auditor. Prior to joining PRIDCO, Mr. Ramos-Nazario worked in the Puerto Rico Comptroller Office. He has a Bachelor Degree in Accounting from the University of Puerto Rico.

Pedro Cuéllar-Colón – Chief Marketing and Communications Officer. Prior to joining PRIDCO, Mr. Cuéllar-Colón worked as Corporate Affairs Director at Philip Morris. He has a Master Degree in Marketing from the Inter American University and a Bachelor degree in Advertising from the Sacred Heart University in Puerto Rico.

As of June 30, 2016, PRIDCO had 233 permanent employees, 127 of which hold managerial positions, and 106 are members of the Puerto Rico Industrial Development Company Independent Employees Union.

Organization Focus

During the past nine 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, from conventional structures, custom-made buildings to meet clients' needs and industrial parks for lease and sale to public and private enterprises. As of June 30, 2016, PRIDCO owned 24,287,334 square feet of industrial space, of which 16,717,400 square feet were under lease agreements and 5,290,660 square feet were vacant. Of the total vacant space, 4,092,128 square feet were available for lease and 1,198,532 square feet were reserved for prospective tenants for future negotiations. The remaining 2,279,274 square feet of vacant space has restrictive conditions including environmental issues.

General-purpose factory buildings and special industrial buildings were built in sites with access to adequate transportation infrastructure, international & 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 in order 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.

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The following table shows PRIDCO's construction of industrial facilities in square feet for the preceding three fiscal years ended on June 30, 2016.

Table IV - Construction of Industrial Facilities
Completed for Fiscal Years Ending June 30

<u>Year</u>	<u>Square Feet</u>
2016	158,980
2015	124,094
2014	120,542
Total	403,616

In order to establish rental rates of existing facilities, PRIDCO has divided the Island into five 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 central mountain region to \$8.45 per square foot for properties located in the San Juan Metropolitan Area.

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 the Board of Directors.

The following table presents, for each of the past three fiscal years, 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 VI - New Leases Agreements

<u>Fiscal Year Ending June 30</u>	<u>Square Feet Leased</u>	<u>Annual Rent</u>	<u>Average Annual Rent Per Square Foot</u>
2016	1,960,507	\$3,865,602	\$1.97
2015	919,502	\$2,275,822	\$2.48
2014	968,593	\$2,137,625	\$2.21

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

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

Table VII – Top Fifty Industrial Lessees
As of June 30, 2016

	Rank and Company Name	Sum of Annual Rent	Total Sq. Feet	No. of Leases
1	MICROSOFT P.R., INC. *	\$5,849,093.52	98,298.89	3
2	COOPERVISION, INC. *	\$2,785,116.86	520,757.70	8
3	HONEYWELL AEROSPACE *	\$2,503,314.89	222,222.30	3
4	EATON CORPORATION	\$2,475,977.76	609,057.80	21
5	FENWAL INTERNATIONAL, INC. *	\$2,447,097.72	271,171.20	7
6	JOHNSON & JOHNSON	\$1,713,189.36	265,097.60	13
7	STRYKER CORP. *	\$1,647,111.68	227,718.20	1
8	HAMILTON SUNDSTRAND, CORP. *	\$1,509,593.52	203,462.20	11
9	GENERAL ELECTRIC INDUSTRIAL SYSTEMS *	\$1,507,932.18	394,950.60	23
10	USSC PRODUCTS	\$1,449,497.76	311,052.40	8
11	BAXTER INTERNATIONAL, INC. *	\$1,108,536.78	318,772.80	14
12	JOHN DEWEY COLLEGE	\$1,089,097.08	271,402.80	12
13	EDWARDS LIFESCIENCES TECH.SARL	\$956,847.84	275,155.90	11
14	PROPPER INTERNATIONAL, INC.	\$921,100.88	462,470.40	15
15	INGERSOLL-RAND CO.	\$893,712.96	221,018.30	12
16	MEDTRONIC EUROPE SA	\$814,206.98	155,496.80	6
17	IRON MOUNTAIN RECORDS MGT (PR)	\$720,445.53	126,449.40	2
18	HONEYWELL MOCA	\$698,227.95	63,756.00	1
19	SEAMLESS PUERTO RICO, INC.	\$659,997.96	158,445.90	7
20	SURGICAL SPECIALTIES, CORP.	\$654,183.00	162,578.00	2
21	NYPRO INTERNATIONAL	\$570,697.70	141,843.00	7
22	PALL NETHERLANDS	\$491,010.36	113,861.70	2
23	PRATT & WHITNEY	\$469,174.08	140,130.70	4
24	SIST. UNIV. ANA G. MENDEZ	\$465,653.03	111,420.60	8
25	METROPOLITAN LUMBER & HARDWARE	\$459,402.83	151,987.40	12
26	ST. JUDE MEDICAL, INC.	\$418,583.28	65,905.35	3
27	FEDERAL EXPRESS CORP.	\$405,300.48	65,149.03	2
28	AUTORIDAD DE ENERGIA ELECTRICA DE PR	\$388,871.00	22,697.09	1
29	SUPERMERCADOS ECONO, INC. (DORADO)	\$360,000.00	0.00	0
30	ATENTO TELESERVICIOS	\$352,057.68	54,582.58	4
31	POSITRONICS INDUSTRIES, INC.	\$344,349.72	87,177.14	4
32	CARDINAL HEALTH, INC.	\$316,987.08	106,183.90	7
33	GENERAL SERVICE ADMINISTRATION	\$297,352.44	11,402.00	1
34	THOMAS & BETTS CORPORATION	\$290,997.96	68,470.13	2
35	LA RE GROUP 2, LLC	\$281,403.00	125,068.00	2
36	GE INDUSTRIAL OF P.R., LLC ARECIBO 3	\$261,206.88	72,573.39	7
37	ADVANCED MEDICAL OPTICS, INC.	\$257,496.24	74,636.59	3
38	INDUSTRIAS FELICIANO ALUMINUM, INC.	\$257,045.28	65,074.76	1
39	C-AXIS P.R., INC.	\$248,970.48	22,647.40	2
40	LIFESTYLE FOOTWEAR, INC.	\$245,504.28	84,559.44	2
41	UNIVERSIDAD INTERAMERICANA DE PUERTO RICO	\$229,774.00	67,808.91	2
42	DISTRIBUTION INTEGRATED SERVICES, INC.	\$227,844.00	83,232.00	8
43	MEDTEHC GROUP, INC.	\$220,725.36	45,102.67	3
44	INCO BUSINESS FURNITURE, CORP.	\$220,377.49	43,711.23	4
45	LISA HELD JENKE	\$219,978.24	73,326.04	4

46	AUT. ACUEDUCTOS Y ALCANTARILLADOS DE PR	\$217,937.64	35,900.00	1
47	COMMSENSE, LLC	\$215,185.20	26,825.94	1
48	DOONEY BOURKE P.R., INC.	\$215,054.64	54,444.20	2
49	RALPH'S FOOD WAREHOUSE, INC.	\$213,703.32	59,362.02	2
50	MICRON TECHNOLOGY, INC.	\$212,380.96	44,730.80	2
Totals		\$41,779,306.86	7,459,149.20	283

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

Table VIII Below shows that during the three fiscal years ended June 30, 2016, PRIDCO has received proceeds from property sales amounting to \$12.5 million and has realized total gains of \$9.5 million.

Table VIII - PRIDCO Sales of Properties
(Dollars in thousands)

Fiscal Year	Selling Price			Cost			Gain		
	Land	Building	Total	Land	Building	Total	Land	Building	Total
2016	\$4,909	\$5,653	\$10,563	\$2,518	\$662	\$3,180	\$2,391	\$4,991	\$7,985
2015	0	0	0	0	0	0	0	0	0
2014	328	1,666	1,944	75	316	392	252	1,350	1,602
Total	\$5,237	\$7,319	\$12,557	\$2,593	\$978	\$3,572	\$2,644	\$6,341	\$9,587

PRIDCO has a strict property sales policy that oversees Trust Indenture compliance before comprising any property to its for sale portfolio. PRIDCO's rental revenue earned from trustee properties has maintained a debt coverage ratio of 1.29X from 2015 thru 2016 fiscal years, still surpassing the 1.25X Trust Indenture coverage ratio minimum requirements.

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The following table illustrates 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 IX - 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
2016	232,240	\$5,653	158,980	\$28,071,512
2015	0	0	124,094	10,000,000
2014	34,214	1,666	120,541	13,500,000
Total	266,454	\$7,320	403,616	\$51,571,512

Industrial Parks

PRIDCO has nearly 200 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 (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.

The most recent industrial projects developed and completed by PRIDCO are the Honeywell building project in Moca at Las Americas Industrial Park. These expansions consist of 158,980 square feet completed in 2016. Other notable expansions during 2016 fiscal year were Prent Expansion in Yauco at Susua Baja Industrial Park and General Electric Building in Arecibo at Zeno Gandia Industrial Park.

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Foreign-Trade Zone

PRIDCO is the grantee of Foreign-Trade Zone No. 7 (FTZ No. 7) since 1960, and one of three existing general-purpose foreign trade zones in the Island (GPZ). PRIDCO's FTZ project is comprised of 136 PRIDCO owned industrial parks and five privately own industrial parks totaling 4,550 acres of FTZ designated land in 77 municipalities. Activities performed in the zone are those permitted in CFR 19 §81(c) which include manufacture, warehousing and distribution of 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 legislations such as property tax and municipal license tax.

General Purpose Zones. During fiscal year 2015-2016 PRIDCO's general purpose zone served 25 distribution and manufacturing firms on a continuous basis retaining 4,090 full-time employees and generating direct annual payrolls of \$109,832,400. Operators received merchandise amounting \$1,534,455,352 and shipped out a total of \$1,045,890,765. Activities performed included warehousing and distribution of vehicles, veterinarian products, chemicals, contact lenses, clothing, electronics, hardware products, wood, domestic appliances, tires, inner tubes and batteries, and contract manufacturing of pharmaceutical products.

Subzones. FTZ No. 7 served 11 manufacturing subzone firms during fiscal year 2015 - 2016. All of them used the subzones on a continuous basis retaining 3,779 full-time employees and generating direct annual payrolls totaling \$222,676,363. Subzones operators received \$3,787,063,204 in merchandise and shipped out \$3,102,965,056 in merchandise. Activities performed were warehousing and distribution of petroleum derivatives, manufacturing of pharmaceutical products, herbicide products, biotechnology products, and contract-manufacturing of pharmaceutical products

PRIDCO charges an annual fee to those companies operating within its zone grant. The fee is not related to not the regular lease agreement obligations (PRIDCO's core business). Current rates are \$10,000 for GPZ operators and \$25,000 for sub-zone operators. Annual Billings for fiscal year 2015- 2016 amounted \$560,000.

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TAX AND OTHER INCENTIVES

The manufacturing sector in Puerto Rico has historically benefited from tax incentives, mostly through the Industrial Tax Incentives Program.

Industrial Incentives Program

Since 1948, the Puerto Rico Legislature has enacted several industrial incentives laws designed to stimulate industrial investment. Under these laws, companies engaged in manufacturing and other designated activities are eligible to receive full or partial exemption from income, property and municipal taxes.

On May 28, 2008, the Government of Puerto Rico approved Act No. 73 also known as the Economic Incentive for the Development of Puerto (Act 73), with the purpose of providing an adequate environment and opportunities for the continued development of our local industry; providing an attractive tax proposal that appeals to foreign direct investments and fosters the economic development and social advancement in Puerto Rico.

The economic incentive benefits provided by Act 73 are substantially more competitive than those provided by previous tax incentive laws such as Act 135 of 1998. The activities eligible to benefit from tax incentives under the Act 73 include manufacturing and scientific and industrial research and development among others.

Act 73 provides an adequate regulation environment and facility development opportunities for the continued development of our local industry. Furthermore it provides an attractive tax proposal that appeal to foreign direct investments and fosters the economic development and social betterment in Puerto Rico. In general terms, any industrial unit that is established for production of a manufactured product on a commercial scale; and any bona fide office, business or establishment with the capability and skills necessary to render a service on a commercial scale are eligible businesses. The companies must meet the characteristics established in Act 73 to be considered an eligible business, and are subject to evaluation before a grant is issued.

Act 73 empowers PRIDCO to administer the Special Fund for the Economic Development (FEDE, as its Spanish acronym) to assist in the promotion of industrial and economic development, and for the social betterment in Puerto Rico. The funds are appropriated by the Commonwealth's Legislature. Upon receipt of funds from the Commonwealth, PRIDCO deposits such funds in a special account over which PRIDCO only has administrative responsibilities. The fund is audited on a separate basis, apart from PRIDCO and its other components.

The following list includes some of the economic incentives available to applicant businesses under Act 73.

- Income Tax Rates incentives include two basic scenarios: the General Scenario of 4% (12% tax withholding on royalties), and the Alternative scenario, with the approval of the Secretary of Economic Development, of 8% (2% tax withholding on royalties).
- Tax Credits are available for purchases of products manufactured in Puerto Rico; for products made from recycled materials; and job creation.
- Other tax exemptions available for Exempted businesses that hold a grant under Act 73 include a 90% exemption from municipal and Commonwealth property taxes; a 60% exemption from municipal licenses, municipal excises and other municipal taxes imposed by any Municipal Ordinance; and certain Commonwealth Excise Tax and Sales and Use Tax exemptions.
- Special Deductions are available for certain Net Operating Losses and for Investment in Building, Structures, Machinery and Equipment.

Total FEDE new incentive commitments during fiscal year 2016 reached \$65 million for 73 projects related to industrial and support activities, amongst other uses indicated in Act 73. The concession of these incentives spurred the commitment of 4,583 jobs and \$160 million for investments in machinery and equipment.

For fiscal year 2016, a total of 50 tax exemption cases were approved under Act 73. Total new employment commitment reached 3,683 with a payroll of \$191.6 million and an investment commitment for machinery and equipment of \$36.1 million.

Act 73 requires the Secretary of the Treasury to establish the special fund (FEDE) to initially allocate 7.5% percent of the income tax revenues paid by exempted businesses and attributable to their industrial development income and payments of withholding tax on royalty of said exempted businesses. The share of the tax revenues to the FEDE will increase to 10% on July 1st, 2016.

PRIDCO is in charge of the administration of the FEDE to spur investment promotion and the creation of jobs. Since FEDE special fund is on the books of the Department of the Treasury, it is not presented in PRIDCO's basic financial statements.

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DEBT AND CAPITAL ACCOUNTS

PRIDCO obtains funds for capital improvements from self-generated funds, loans and government contributions. During August 2003, PRIDCO issued General Purpose Revenue and Refunding Bonds (the Bonds) amounting to \$162.2 million. The proceeds of this issuance were used mainly to refund the Series 1991 Bond amounting \$25.6 million; to pay notes payable to Government Development Bank for Puerto Rico in the amount of \$78.7 million; to provide \$52.1 million for the construction of industrial facilities; and to \$4.7 million to pay 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 last three fiscal years. As of June 30, 2016, PRIDCO's total debt is equal to 55% of the total debt and capital account.

Table X - Debt and Net Assets
(Fiscal Year ending June 30)
(Dollars in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>DEBT</u>			
Bonds	\$167,542	\$179,859	\$189,359
<u>Other</u>	<u>262,996</u>	<u>238,593</u>	<u>236,795</u>
Total Debt	\$430,538	\$418,452	\$426,154
<u>NET ASSETS</u>			
Invested in Capital Assets	\$400,196	\$389,268	\$393,732
Restricted	20,558	13,690	19,577
<u>Unrestricted</u>	<u>(64,804)</u>	<u>(27,929)</u>	<u>(34,393)</u>
Total Net Assets	\$355,950	\$375,029	\$378,916
TOTAL DEBT AND NET ASSETS	\$786,488	\$793,481	\$805,070

Includes debt incurred by PRIDCO subsidiaries or guaranteed by PRIDCO.

* Revised.

Total Assets

As of June 30, 2016, PRIDCO's total assets were approximately \$786 million. Net Property and Equipment amounted to approximately \$655 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.

During the 2016 fiscal year term PRIDCO began a trustee payment schedule deferral process following local legislation requirements. To facilitate payment compliance, the Trustee bank also began making automatic payment withdrawals from PRIDCO's Trustee Reserve Account.

As of April 1, 2016, the balance in the Sinking Fund Reserve Account was \$32 million, which exceeds the minimum required balance.

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 historical gross revenues of the Trusted Properties and Eligible Properties available for debt service, Principal and Interest Requirements on the Bonds, and of such gross revenues to Principal and Interest Requirements for the past three fiscal years ending June 30, 2016.

The historical debt coverage ratios in the table below include gross rental revenues from Eligible Properties, and are shown for illustrative purposes only. The only revenues pledged to the payment of the Bonds are gross revenues of the Trusted Properties. However, Eligible Properties may, and under certain circumstances, be added to the Trusted 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 purpose of compliance with the additional bond tests contained in the Trust Indenture.

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During fiscal year 2016, the debt coverage ratio remained at 1.29x as fiscal year 2015.

Table XII - Historical Debt Coverage Ratios
(Fiscal Year ending June 30)
(Dollars in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Rental Revenue Collected - Trustee Properties	\$33,210	\$33,180	\$34,357
Certain Proceeds from Sale of Properties ¹	2,112	-	399
Interest on Reserve Account	<u>13</u>	<u>5</u>	<u>7</u>
Total	\$35,335	\$33,185	\$34,763
Rental Revenues Collected - Eligible Properties	<u>34,574</u>	<u>31,405</u>	<u>26,343</u>
Adjusted Total	\$69,909	\$64,590	\$61,106
Maximum Principal and Interest Requirements	\$25,669	25,699	25,699
<u>Debt Coverage Ratios</u>			
Trustee Properties	1.29x	1.29x	1.34x
Trustee and Eligible Properties	2.64x	2.52x	2.36x
Trustee Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	1.38x	1.29x	1.35x
Trustee and Eligible Properties, Certain Proceeds from Sale of Properties, and Interest on Reserve Account	2.72x	2.52x	2.38x

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.

* Revised.

The following Consolidated Statement of Operations illustrates selected financial data for the past three fiscal years ending June 30, 2016. This data is derived from PRIDCO's consolidated financial statements which have been audited by independent public accountants.

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The following table summarizes PRIDCO's consolidated statement of 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 Trustee Properties, and only if those, and the amounts of the credit of the reserve account, should be insufficient from any available funds of PRIDCO. It should also be noted that 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.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES			
Rental income from Trustee and Eligible Properties	\$65,602	\$61,832	\$61,717
Net Gain on Sale of Property & Insurance	7,989	6	1,604
Net Investment Income	248	211	253
Interest Income	149	348	1,029
Other Revenues	<u>25</u>	<u>0</u>	<u>58</u>
Total Revenues	74,013	62,397	64,661
EXPENSES			
Salaries and Wages	16,173	16,410	18,304
Administrative and General	32,102	23,294	18,916
Depreciation and Amortization	20,177	20,613	20,613
Maintenance and Repairs	5,301	6,932	7,199
Provision for Legal Matters	0	0	0
Impairment loss on deposit with GDB	2,018	0	0
Payment to Puerto Rico Authority	<u>2,351</u>	<u>0</u>	<u>0</u>
Sub Total Expenses	78,122	67,249	65,032
Expenses Capitalized	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses	78,122	67,249	65,032
FINANCE CHARGES			
Interest Expenses	(21,627)	(18,787)	(20,550)
Payment to Commonwealth	0	0	0
Amortization of Debt Issue Costs	<u>0</u>	<u>0</u>	<u>0</u>
Total Finance Charges	<u>(21,627)</u>	<u>(18,787)</u>	<u>(20,550)</u>
Total Expenses	56,495	48,462	44,482
TOTAL INCOME (LOSS) BEFORE CONTRIBUTIONS	(25,736)	(23,639)	(20,921)
Contributions from U.S. Government Agencies	0	0	0
Capital Contributions	6,657	19,752	44,405
Less: Early retirement and voluntary separation plan	<u>0</u>	<u>0</u>	<u>0</u>
NET INCOME (LOSS)	(19,079)	(3,887)	23,484
Net Assets (Deficit) beginning of year	\$375,029	378,916	355,432
Net Assets (Deficit) end of year	\$355,950	\$375,029	\$378,916

* Revised.

As of June 30, 2016, net assets of \$356 million are composed of \$400 million invested in capital assets, net of related debt; \$21 million unrestricted and a deficit of \$65 million. Total net assets changed from \$375 million to \$356 million, a decrease of approximately \$19 million. Amounts due from the Commonwealth of \$41.7 million consist of the outstanding balance of three lines of credit used to fund the industrial incentives offered by the Special Incentives Fund administered by PRIDCO, but whose operations are not included as part of the basic financial statements of PRIDCO.

Industrial Rentals and Collections

The following table presents PRIDCO's industrial space rentals billed and collections in the three years ending June 30, 2016.

Table XIV – Industrial Rentals Billed and Collections
(Dollar in thousands)

Fiscal Year Ending June 30,	Square Feet Billed	Rentals Billed	Rentals Collected	Collection Rate
2016	14,105,066	\$66,801	\$64,930	97%
2015	14,022,340	\$64,551	\$61,638	95%
2014	14,216,629 *	\$64,295	\$59,746	93%

* Revised.

For the purpose of Table XIV Rental Collected from; (i) early termination penalties of contract cancellation agreements, (ii) repairs and maintenance charges to former tenants, (iv) administrative fees to tenants and others revenues have been excluded and hereby referred to as One Time Collections. The Adjusted Rentals Collected includes revenues from current fiscal year and One Time Revenues transactions as shown below:

Rental Collections Details
(Dollar in thousands)

Fiscal Year Ending June 30,	Rentals Collected	One Time Collections	Adjusted Rentals Collected
2016	\$64,930	\$2,854	\$67,784
2015	\$61,638	\$3,082	\$64,720
2014	\$59,746	\$3,076	\$62,822

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 5 days. After these 5 days, a third letter is sent by the Legal Department. Consequently, after two 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 Legal Department is responsible for obtaining the eviction judgment and the Treasurer’s Office for its execution.

CAPITAL IMPROVEMENTS PROGRAM

Historical Background

From 2014 to 2016, all of PRIDCO’s capital expenditures were used for the development and maintenance of industrial facilities, including buildings, land acquisition, and land development (mostly, site improvements). The following table summarizes the capital expenditures of PRIDCO and sources of funds for such expenditures during the three fiscal years ending June 30, 2016.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Total</u>
<u>Capital Improvements</u>				
Industrial Buildings Construction	\$29,370	\$8,025	\$13,500	\$21,525
Industrial Land Development	5,775	943	0	\$943
Land Acquisition	0	0	0	\$0
Property Improvements and Other	<u>5,000</u>	<u>5,000</u>	<u>4,000</u>	<u>\$12,100</u>
Total	\$40,145	\$13,986	\$17,500	\$34,568
<u>Sources of Funds</u>				
Internally Generated Funds	\$40,145	\$13,968	\$17,500	\$34,568
Government Contributions – Federal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$40,145	\$13,968	\$17,500	\$34,568

ENVIRONMENTAL MATTERS STATUS REPORT

The Comprehensive Environmental Response Compensation and Liability Act of 1980 (“CERCLA”) was enacted to address problems resulting from releases of hazardous substances to the environment. CERCLA establishes procedures and standards for responding to releases of hazardous substances. Under CERCLA, liability for clean-up costs and damage to natural resources 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. It also offers limited liability defenses to certain parties which, prior to acquiring interests in real property, conduct due diligence at properties targeted for acquisition and adjacent ones which potentially impact the target properties.

In response to CERCLA, and to reduce the risk of unwanted environmental liabilities, PRIDCO requires that an environmental evaluation be conducted on its properties before they are leased, and upon termination of an existing lease agreement. PRIDCO has also included a clause in its standard lease agreement requiring tenants to indemnify and hold PRIDCO harmless from and against any and all liabilities incurred as a result of environmental conditions occurring during the lease term.

I. National Priorities List-Superfund Sites

As required by CERCLA, the U.S. Environmental Protection Agency (“EPA”) has developed a National Priorities List (“NPL”) in order to ensure that scarce resources are first used to clean up those facilities presenting the greatest danger to public health or the environment. PRIDCO currently holds title to three properties, in Vega Alta, Guayama, Maunabo, San Germán and Cidra, which are part of broader sites that have been included by EPA in the NPL.

Further, with respect to NPL sites located in Cabo Rojo, PRIDCO is aware of its potential liability at each. PRIDCO has discussed these matters with EPA representatives, and has obtained preliminary information concerning EPA’s legal and technical work on each of these two sites. In the case of the Cabo Rojo Ground Water Contamination Site, by letter to PRIDCO dated April 16, 2012, EPA issued a Request for Information pursuant to CERCLA. PRIDCO submitted its response to EPA’s Request for Information on October 16, 2012. As of this date, EPA has not named PRIDCO as a PRP or asserted a claim against, or made a demand upon, PRIDCO to perform or fund response activities at Cabo Rojo site.

At two NPL sites where the federal government identified PRIDCO as a PRP solely for being a part owner of the sites (Vega Alta and Guayama), financial responsibility for cleanup costs is currently being undertaken by the industrial PRPs. PRIDCO’s participation in the site remediation efforts now consists primarily of performing owner-related tasks to assist the industrial PRPs in conducting the cleanup and remediation work, such as affording access to

property owned by PRIDCO. The company has also been involved in providing in-kind support to the industrial PRPs' implementation of the cleanup programs.

1. Maunabo Site

On September 27, 2012, EPA issued its Record of Decision on ("ROD") for the Maunabo Groundwater Contamination Site ("Maunabo Site"), which is included on the NPL. The ROD selects the installation of an air sparging/soil vapor extraction system as a component of the remedy, and EPA estimates the cost of its selected remedy to be approximately \$4,900,000.00.

The following preliminary discussions between EPA and PRIDCO concerning PRIDCO's potential relationship for the Maunabo Site; PRIDCO received a letter dated April 25, 2013 from EPA captioned in part, Notice of Potential Liability Pursuant to 42 USC sec. 9607 (a) of the Comprehensive Environmental Response Compensation and Liability Act. In addition to notifying PRIDCO of its potential responsibility for the Maunabo Site in PRIDCO's capacity as owner the EPA April letter sought to determine whether PRIDCO is willing to perform or finance the remedy selected in the ROD and discuss the reimbursement of EPA past incurred response costs which costs were estimated to be \$3,530,810 at such time. The EPA April letter sought stated that any agreement to perform the remedial action would have to be finalized in a judicial consent decree.

PRIDCO responded to the EPA April Letter in May 17, 2013 ("PRIDCO Letter"). The PRIDCO Letter, while notifying EPA that PRIDCO is "open to discuss with EPA" the elements of the EPA April Letter, set forth numerous assertions on technical and legal grounds for PRIDCO's not being considered a potentially responsible party for the Maunabo Site. In addition to its "significant reservations" that a release or threatened release of a hazardous substance occurred from property owned by PRIDCO, the PRIDCO Letter contained several "defenses that PRIDCO is prepared to put forward to demonstrate its freedom from liability for the [Maunabo Site]." Finally, the PRIDCO Letter included several "Conditions pursuant to which PRIDCO is prepared to move forward to address the contents of the EPA [April] Letter," EPA responded PRIDCO May 17, 2013 letter concluding that PRIDCO was not giving EPA a good faith offer and that require to give them information as to any other possible responsible party.

EPA requested permission to access the property in order to conduct studies to design the remedial plan and construct a remedial pilot plan.

PRIDCO submitted to EPA a FOIA. PRIDCO submitted a letter to EPA stating that PRIDCO conducted studies on the site and the results establishes a possible up gradient source of contamination. PRIDCO also requested information of some tests that were altered by an EPA contractor.

On September 15, 2015, United States of America on behalf of EPA issued a lawsuit against Puerto Rico Industrial Development Company (PRIDCO) for liability under section 107(a) 91) of CERCLA as a person who is the current owner of a facility where have been releases of hazardous

substances in the Maunabo Site and are requiring the reimbursement of all costs incurred by EPA and subsequent response costs incurred by EPA.

PRIDCO issued a Motion to Dismiss. EPA amended the lawsuit. The case is in discovery procedure and the phase 1 trial is set for September 2017.

2. Vega Alta Site

EPA notified PRIDCO and five of PRIDCO's current or former tenants that they are potentially responsible parties ("PRP's") at the Vega Alta Wellfield Site ("Vega Alta Site") located in an industrial park to which PRIDCO holds title in the municipality of Vega Alta, Puerto Rico. The Vega Alta Site was placed on the NPL in 1984.

EPA has issued several administrative orders and amendments to administrative orders to some or all of the originally notified PRP's, including PRIDCO. The first order provided for treatment of contaminated groundwater at the public supply wells owned by the Puerto Rico Aqueduct and Sewer Authority ("PRASA") and connection of users of private wells to the PRASA distribution system. These wells are being permanently shut down. The second order required the parties to perform a remedial investigation and feasibility study in the suspected source areas at the industrial park. The third order directly three PRPs, including PRIDCO, to perform the remedy selected by EPA as the result of the remedial investigation and feasibility study performed pursuant to the second order. Certain of PRIDCO's current and former tenants, with in-kind assistance from PRIDCO (which has not acknowledged liability), have undertaken the work required under all three orders as such orders have, from time to time, been amended. Based on its review of reports submitted by the parties performing such remedies, PRIDCO understands that all remedial actions have been completed except for long term monitoring and that the performing parties have obtained or are pursuing regulatory closure of all treatment systems.

On September 28, 1990, the federal government initiated a cost-recovery action in the U.S. District Court for the District of Puerto Rico, pursuant to CERCLA Section 107, against the respondents under the first EPA order to recover EPA's past costs and seeking a declaratory judgment as to liability for future costs of remediation. On August 30, 1994, the industrial parties (but not PRIDCO) entered a stipulation of liability, which led to a settlement between all codefendants (including PRIDCO) which is embodied in a consent decree which the court approved on April 24, 1996.

On August 28, 1997, certain neighboring property owners filed a complaint captioned M.R. (Vega Alta), Inc., et al. v. Caribe General Electric Products, Inc., et al. in the U.S. District Court for the District of Puerto Rico (Civil No. 97-2294) (JAF) against the industrial PRP's but not PRIDCO. Nixon Peabody (PRIDCO's outside legal counsel) has been informed that this litigation, which did not include PRIDCO as a defendant, has been resolved.

The industrial PRPs received separate notices of intent to sue from the Puerto Rico Environmental Quality Board ("EQB") (dated February 3, 1998) and from PRASA (dated August 5, 1998) pursuant to various citizen suit provisions under CERCLA, the Resource Conservation and Recovery Act ("RCRA"), and other federal statutory and Puerto Rico common law provisions. These parties alleged substantial damages incurred by the Government of Puerto Rico in responding to releases of contaminants at and from the Vega Alta Site. PRIDCO was not named in these notices of intent. To the best of our knowledge, although these notices of intent were never withdrawn the Puerto Rico government agencies which issued them have not pursued them.

In a letter dated April 29, 1999, EPA made a demand to six PRPs, including PRIDCO, for reimbursement of the costs that EPA had sought to recover during the negotiations conducted during 1998. Since that time, Export and Unisys Corporation resolved their liability with the federal government for past costs and interest. Although PRIDCO did not resolve its liability directly with EPA, PRIDCO obtained an indemnity for any such claims in a Settlement Agreement dated September 23, 2002, between Export, Unisys Corporation and PRIDCO. Excluded from this agreement are releases for criminal liability, resulting from acts or omissions of PRIDCO personnel, agents and representatives, and contamination which Export and/or Unisys Corporation demonstrates has been caused solely and exclusively after September 23, 2002, by an entity other than one of them.

By letter dated September 27, 2005, the Secretary of the Puerto Rico Department of Justice, the Secretary of the Puerto Rico Department of Natural and Environmental Resources, and the President of the Puerto Rico Environmental Quality Board notified the President of Caribe General Electric International Controls Corp. ("Caribe GE") that the Commonwealth of Puerto Rico intended to sue Caribe GE to recover damages to natural resources. Following meetings, other communications and extensive negotiations among many involved entities, including, among others, PRIDCO, the result was that litigation was not commenced and the matter was settled. PRIDCO has no financial obligation pursuant to the settlement.

EPA has not yet given notice to General Electric of Clearance and Closure of the remediation.

3. Guayama Site

EPA has listed the Fibers Public Supply Wells Site in Guayama, Puerto Rico, on its National Priorities List ("NPL") of inactive hazardous waste disposal sites, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). PRIDCO holds title to property which comprises a portion of the Fibers Public Supply Wells Site, having purchased that land from the Puerto Rico Land Administration in 1984.

Pursuant to EPA orders, private companies 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, 1988, EPA informed PRIDCO that it wanted the investigation of the

site expanded and that PRIDCO, as owner of a portion of the site, is a potentially responsible party under CERCLA, along with the private companies. In April 1991, EPA formally notified PRIDCO that -it was considered a potentially responsible Party and invited PRIDCO to negotiate to perform the remedy. In response, PRIDCO oppose any action to hold PRIDCO responsible for the costs of investigation or remediation of the site, but it offered to provide "in-kind" assistance to the industrial parties and to facilitate coordination with Puerto Rico agencies.

In September 1991, EPA selected a remedy for the site, which, assuming a 30-year period of implementation and operation (present value), may eventually total approximately \$10 million. The industrial parties (the "Fibers Group") entered into a consent decree with EPA which requires the Fibers Group to perform the selected remedy.

In July 1993, PRIDCO entered into an agreement with the Fibers Group to provide certain in-kind services related to implementation of the remedy, and PRIDCO has been carrying out that agreement. Outside Legal Counsel recommended to PRIDCO that it attempt to value the in-kind services it has provided to the Fibers Group in an effort to determine whether the agreed upon level of \$465,000 worth of services had been achieved and that PRIDCO also assess what additional obligations it owes to the Fibers group under such agreement.

In 1994, PRIDCO entered into a further agreement with the Fibers Group, agreeing to provide access to certain PRIDCO owned property, including at the site, for the purpose of enabling the Fibers Group to perform the selected remedy.

In 2011, a disagreement between PRIDCO and the Fibers Group over the scope and extent of the 1994 access agreement led PRIDCO to enter into a Memorandum of Understanding with the Fibers Group, intended to permit PRIDCO to sell certain property near the site to AES Ilumina LLC ("Ilumina") for the purpose of enabling Ilumina to develop a solar project at this location.

In 2013, the Fibers Group worked on identifying alternatives for the receipt of the discharge from its groundwater treatment facility. In addition, the Fibers Group conducted activities pursuant to its "Subsurface Investigation Work Plan"; which was initiated in December 2012; was designed, in part, to better understand the vertical and lateral distribution of contaminants and to thereby optimize the groundwater extraction system; and involved the installation of several well clusters on PRIDCO's property. The Fibers Group reported to EPA on September 9, 2013 that it was preparing a revised subsurface investigation work plan to incorporate changes to its drilling program, including the possible installation of additional well clusters.

On September 2014, Fibers had a meeting with EPA regarding the disposition of the treated water and the alternative of disposing it where Baxter's operation, which is now closed, disposed its treated water. It was also discussed changes in the Fibers drilling program to include 6 new additional monitoring wells in a property near Baxter's closed operation. It was also discussed the possibility of treating the chlorinated volatile organic compounds by the process of natural attenuation instead of pumping and treating it. And only extract and treat the halo ethers.

Fibers also had a meeting with EQB to discuss the standards for disposing the treated water and the NPDES application.

On 2015 the packed tower air stripper was demolished and a new shallow tray air stripper was installed. The groundwater extraction treatment returned to service on September 30, 2015.

The ground water will be extracted, treated and discharged to the Phillips ditch by pumping through a 8 inch diameter high density polyethylene pipe into a 24 inch diameter corrugated metal discharge pipe outfall structure.

EPA approved the discharge of the treated water to the Phillips Ditch as a temporary alternative until a better use for the treated water alternative is achieved. There are various alternatives considered among which are the discharge to PRASA.

4. Cidra Site

In a letter dated April 25, 2006, captioned, in part, "Notice of Potential Liability and Request for Information," EPA notified PRIDCO that "as a current owner or operator of a portion of the Site PRIDCO is a potentially responsible party" " The "Site" referred to in the EPA letter is "the Cidra Contaminated Groundwater Superfund Site, located in Cidra, Puerto Rico" (the "Cidra Site"). According to EPA the Cidra Site was placed on the NPL in 2004.

EPA's letter also included a Request for Information, requiring the transmittal to EPA of information and documents relating to the Cidra Site and responding to questions in connection therewith Following EPA's grant of extension requests from PRIDCO, PRIDCO transmitted its response to the EPA Request for Information under cover of our letter dated October 13, 2006.

To date, EPA has not sought any response action from PRIDCO in connection with the Cidra Site. In its April 25, 2006 letter, EPA informed PRIDCO that EPA intends to perform a Remedial Investigation/Feasibility Study ("RI/FS");"which will be used to determine the nature and extent of the contamination at the Site and determine what remedial action, if any, is needed to address such contamination. EPA made available to PRIDCO sampling data from its investigation, has shared with PRIDCO redacted portions of a draft technical memorandum report prepared by EPA for the Cidra Site, and informed PRIDCO in May 2012 that it had completed the first phase of the Remedial Investigation.

EPA conducted a public hearing to discuss the Record of Decision and the alternatives of remediation planned for the site.

EPA requested on April, 2014 PRIDCO copy of the deed of the sale of the parcel of land sold by PRIDCO to Ramallo Bros. Printing Inc. Ramallo is now the primary responsible party of EPA for the contamination of the site. PRIDCO sent the requested deeds to EPA.

5. Cabo Rojo Federal Superfund Site

PRIDCO is aware of its potential liability with respect to the Cabo Rojo Site which is included on the NPL. PRIDCO has discussed the matter with EPA representatives including in meetings held in May 2012 and has obtained preliminary information concerning EPA's legal and technical work on the site.

On April 16, 2012 EPA issued PRIDCO a request for Information pursuant to CERCLA. PRIDCO submitted its response to EPA's request on October 16, 2012.

On February 2013 EPA requested access to PRIDCO to continue conducting studies in Pedrenales Industrial Park.

On 2014 EPA installed two monitoring wells in property S-1105-0-73 and S-0738-0-66. To date, EPA has not sought any response action from PRIDCO in connection with this Site.

EPA is currently conducting site studies in PRIDCO's property.

6. San German Superfund Site

On April 2015 EPA conducted a meeting with PRIDCO, Wallace and CCL and requested interim remedial measure to be taken at the Wallace and CCL buildings to assure the safety of the employees on those buildings. For that matter, PRIDCO contacted both of them and informed them of their responsibility under the lease agreement to comply with EPA's request. CCL is transferring its operation to another PRIDCO building located in Sabana Grande so it's not necessary to conduct the interim measure. Wallace is responding to EPA request and is conducting interim measures to assure the employees safety.

On May 22, 2015, PRIDCO informed EPA of its doings regarding the request of interim measures in Wallace and CCL buildings.

On May 2015, EPA issued PRIDCO a request for information and a notice of potential responsibility which was replied by PRIDCO on July 9, 2015.

On August 19, 2015 was EPA's public hearing presenting the proposed plan for the san German groundwater contamination superfund.

On September 11, 2015 PRIDCO provided EPA its comments to the proposed plan presented.

On December, 2015, EPA issued its Record of Decision on ("ROD") for the San German Groundwater Contamination Site ("San German Site"), which is included on the NPL. The selected remedy in the ROD requires soil vapor extraction to address soil source areas at the Wallace and CCL lots; Impermeable cover as necessary for the implementation of the SVE; Dual

Phase Extraction in the shallow saprolite zone; and in situ treatment such as enhanced anaerobic biodegradation as needed to address residual sources. The estimated costs are \$7,326,000.00.

EPA has issued various notices of possible responsible parties. PRIDCO is in the process of negotiating a written release of responsibility from EPA's, Wallace and CCL and making sure that the responsible party complies with EPA.

EPA is currently conducting additional studies at Pridco's property.

II. Environmental Remediation

1. Property Owned by PRIDCO in Palmer

On December 8, 2003, PRIDCO purchased from Caribe GE Distribution Components,, Inc., now known as Caribe GE International Electric Meters Co., a parcel of property in Palmer. This property was formerly used for manufacturing operations by Caribe General Electric Products, Inc. A unit of General Electric Company, GE Consumer and Industrial ("G.E."), has assumed responsibility for that parcel. The property purchased by PRIDCO did not include the portion of the former GE Palmer parcel which lies across the road, on which wastewater treatment lagoons are situated and at which remedial activities conducted by G.E. have been completed.

Pursuant to the deed, G.E. retained responsibility, with respect to both the PRIDCO parcel and the parcel which G.E. continues to own, pursuant to an EPA permit is issued under the Resource Conservation and Recovery Act ("RCRA"). It was the intention of both PRIDCO and G.E., and a term of the sale, that G.E. use best efforts to modify the RCRA permit to remove the PRIDCO-owned property from the permit and for G.E. to remain responsible for all obligations of the permit until that modification was accomplished.

On February 5, 2004, EPA wrote to G.E seeking from G.E, a permit modification request and a work plan "to address the releases to the groundwater of chlorinated solvents and related constituents ... and possible releases of metal constituents to the soils at the facility."

Over the ensuing years, until the present day, G.E. has conducted and is continuing to conduct site investigations pursuant to EPA supervision. In correspondence and meetings with EPA and G.E., PRIDCO has expressed its primary concerns relative to G.E.'s work at the site: (a) the potential for residual contamination to exist under the vacant buildings, potentially posing a risk to occupied indoor air space and potentially constituting an ongoing source of, contamination migrating within and from the site; and (b) the potential for the migration of contaminated groundwater in deeper zones (particularly fractured bedrock) to pose an ongoing risk to human health and the environment. PRIDCO has sought to have EPA require G.E. to implement these additional measures, as well as the rest of G.E.'s investigative work, under the existing permit to provide necessary assurance that (i) any corrective or remedial actions will fully address human health or environmental risks associated with historical operations and (ii) future redevelopment of the site will not be adversely affected. G.E.'s opinion is that these issues are not supported by

the existing data, or if they do exist, they are not material concerns at the site which would affect the Remedial actions.

In 2008, EPA required submission of a Revised Corrective Measures Study (CMS) Work Plan and interim groundwater Monitoring Plan before a final remedy for the groundwater at the site will be selected. In 2009, despite its technical concern, and subject to EPA's agreeing that it will not look to PRIDCO in the event EPA requires further investigations in these areas at a future point, PRIDCO informed G.E. and EPA that PRIDCO would acquiesce in the risk based remedial approach that is outlined in the CMS linking the proposed remedy to future intended uses of the site.

On September 2014 GE sent a Corrective Measure Study Draft to EPA. To implement the study GE is going to install additional monitoring wells.

On October 2014 PRIDCO had a meeting with EPA regarding GE remediation status and EPA address PRIDCO in the nature of the future use of the site, specifically if the use was going to be an ecotourism project or an industrial project. The reason was that depending on the future use of the site was the measure of the remediation. PRIDCO is going to respond by establishing the importance of requiring the remediation necessary for an ecotourism project.

2. Property Formerly Leased by Shelfoam Products, Inc., in Cidra

PRIDCO received a notice from EPA in December, 2007, in regards to the discharge or threatened discharge at Lago de Cidra, from a PRIDCO property leased by Shelfoam Products, Inc. Citing the Clean Water Act and the Oil Pollution Act, EPA called upon PRIDCO to report on the steps being taken by PRIDCO to address the situation. On December 27, 2007, PRIDCO sent EPA a letter with detailed information on the measures to solve the oil contamination issues. Since then, PRIDCO has not received further communications from EPA on this matter.

On July 22 to 24 of 2014 PRIDCO removed and underground tank that was in the property as part of the corrective measures undertaken in the property.

PRIDCO submitted a report to the Environmental Quality Board (EQB) regarding the removal of the underground tank.

On February, 2016 EQB replied PRIDCO's report requiring additional corrective measures.

3. General Electric Indicating Devices, Naguabo, Puerto Rico

In June 2007, we received a copy of a letter, undated, from EPA to PRIDCO in which EPA notifies PRIDCO "to perform a RCRA Facility Investigation "RFI" to fully characterize the solid waste management units ("SWMUs") to determine the extent of releases or suspected releases of hazardous waste into the soil, subsurface soil, subsurface gas, air, surface water, and groundwater at the facility located at Naguabo". The letter, which is captioned in part, "Caribe General Electric

Indicating Device, Naguabo Puerto Rico," states that "PRIDCO must submit a RFI for EPA approval within 90 days of the receipt of this letter." We also received a copy of a letter, also undated, from EPA to GE Electric Products, Inc. Consumer and Industrial, Humacao" that is virtually identical to the one that PRIDCO received, also requiring the submittal of an RFI within 90 days of the receipt of EPA's letter.

We were informed by other outside counsel to PRIDCO that in late June 2007, such counsel wrote to representatives of G.E. requesting either that G.E. provide documentation evidencing that this matter was previously resolved by G.E. or, in the alternative, that G.E. perform the RFI. Such counsel also informed us that EPA wrote to G.E., granting an extension of the above-mentioned 90-day period within which to submit the RFI.

GE submitted the Remedial Plan and EPA approved it. GE is now in the process of starting to execute the remediation. PRIDCO received during the first quarter of 2007, an RFI request to sample soil and ground water conditions at a property formerly occupied by G.E. The RFI comes as a result of an RFA conducted by the EPA and EQB during the 1980's, when G.E. finalized operations at the subject property. G.E. manufactured electrical devices at said property and as a result of its operations thereat, G.E. handled hazardous substances and generated hazardous wastes. The RFA identified certain areas at the property where alleged potential spills of hazardous substances occurred.

The EPA also sent the same request to conduct the RFI to G.E. PRIDCO and G.E. met and G.E. agreed to address EPA's request. G.E. submitted a response to the EPA alleging that no spills were documented at the property and that the suspected areas were closed in accordance with applicable regulations at the time of closure and approved by the regulatory agencies. G.E.'s response has been submitted to the EPA and we have not been informed either by G.E. or the EPA of any response as of this date.

4. *In Re: Puerto Rico Industrial Development Company (PRIDCO) vs. Barge 180 O.N.D558794, (NR), Civil No.: 05-1935 (HL) United States District Court for the District of Puerto Rico.*

In late 2004, the owner of a severely deteriorated barge (known as Barge 180, hereinafter "Barge"), Mr. Mario Fantecchi ("Mr. Fantecchi"), moored it, without authorization, at a PRIDCO dock in Mayagüez, on property formerly leased by Star Kist. When PRIDCO discovered the Barge in early 2005, PRIDCO:

- Concluded that it was in danger of sinking, thereby creating a navigational hazard and creating the potential to affect its property and for a costly removal project;
- Sought to have the owner, who claimed he intended to tow it to the Dominican Republic to have it recycled for scrap metal, remove it from PRIDCO's property; and when the owner failed to act, looked into options to remedy the situation itself.

PRIDCO delivered at least two detailed letters to Federal Authorities (specifically to EPA) in order to move the Barge from its position and dispose the same 12 miles offshore. In essence, PRIDCO requested consideration of the special circumstances of the Barge in order to dispose the vessel closer to shore than the 12 miles specified in the applicable Federal Regulations at 40 CFR 229.3.

On or around July 2005, EPA delivered a letter denying PRIDCO's request to dispose of the Barge. According to EPA, the only viable solution was to haul the Barge ashore, cut it apart and then dispose of it as scrap material.

To accomplish the foregoing, on September 2, 2005, PRIDCO filed the case titled Puerto Rico Industrial Development Company (PRIDCO) vs. Barge 180 O.N. D558794, (NR), Civil No.: 05-1935 (HL), before the United States District Court for the District of Puerto Rico. The case was an In Rem proceeding under admiralty law. In this case, PRIDCO requested the court to arrest the vessel and other remedies under admiralty law, to wit; payment for damages to the pier; payment for rent; and to dispose or move the Barge from the pier. PRIDCO then filed an informative motion in which it informed the Court of the sinking of the Barge and that all pertinent agencies were duly notified.

Mr. Fantecchi acknowledged the nuisance created by the sinking of the Barge and his obligation to remove it at his expense. Thus, on November 10, 2006, the parties submitted a stipulation agreement in which Mr. Fantecchi agreed to pay \$80,000 as liquidated damages to PRIDCO and to remove the Barge from its present location within 120 days. On November 29, 2006, the Court entered judgment dismissing the case, approving the settlement and retaining jurisdiction for any subsequent enforcement matter. This notwithstanding, after many extrajudicial attempts to execute the judgment (approving the settlement agreement) to no avail, a motion to reopen the case was filed before the Federal District Court, in order to execute the judgment.

On March 6, 2008, the United States Corps of Engineers (CORPS) delivered a letter to PRIDCO asking when the Barge would be removed from its existing position. As a result, PRIDCO met with the CORPS to clarify and to explain the status of the In Rem proceeding before the United States District Court for the District of Puerto Rico. PRIDCO maintained that it has no responsibility for the removal of the barge since it is not the owner, operator or lessee of the same at the time it sunk and it was illegally moored in its pier. PRIDCO provided information to the CORPS as to the whereabouts of Mr. Fantecchi. On September 8, 2008, the CORPS delivered another similar letter to PRIDCO. Although PRIDCO has denied responsibility for the removal of the barge, upon information obtained, the cost of removing said vessel would be around \$400,000.

It is important to note that PRIDCO's responsibility as appointed custodian ceased at the moment the Federal District Court entered a Judgment approving the stipulation agreement. The important aspect of this issue is that few days after the sinking of the Barge, PRIDCO notified

pertinent federal agencies, including CORPS, by letter and motion, of the event and consequently of the ongoing In Rem proceeding. As early as February 23, 2006, copy of the Complaint and Answer were delivered to CORPS. No federal agency filed a request to intervene in the proceeding, which could have included filing objections to the settlement agreement between the parties, under which Mr. Fantecchi accepted full responsibility of the removal of the Barge. As of February 28, 2013, the barge continues to be drowned but represents no contamination.

5. Property Leased by Avon Mirabella, Inc. in Aguadilla

Avon Mirabella, Inc. ("Avon") formerly conducted an electroplating operation on property leased by Avon from PRIDCO for the purpose of manufacturing jewelry. As the result of leaks and spills among other things, hazardous wastes have contaminated the concrete floor and surrounding trench system, and are also present in soils beneath such areas.

Over the course of the past few years, PRIDCO and Avon representatives have disagreed about the scope of the remedial work necessary for Avon to address the above described site conditions. Avon has maintained that removal and renovation of the concrete areas are sufficient to address adverse environmental conditions while PRIDCO has sought, in addition, some removal of impacted Soil.

One of the reasons that PRIDCO wants Avon the dig up and properly dispose of soils is PRIDCO's concern that requirements pursuant to RCRA might be interpreted to mandate that such soils be managed as hazardous waste if, for example, they are excavated as part of some future PRIDCO redevelopment project. PRIDCO has, therefore, contended that Avon should deal with the situation it has created now so that PRIDCO does not face the cost or the liability of doing so in the future.

On December 18, 2000, in an effort to understand PRIDCO's potential legal exposure and to end the impasse with Avon, one of PRIDCO's outside counsels wrote to EPA, seeking a determination in the hazardous waste status of the soils underlying the Avon facility. In response to such letter, PRIDCO's received a telephone call from an EPA representative on March 15, 2001; PRIDCO's outside counsel reported that EPA regards the issue as "academic" since no corrective action was taking place at the facility and, as a consequence of its limited resources, the applicable EPA regional office does not have time to devote to the requested determination.

Avon and PRIDCO representatives met on March 22, 2001 in an effort to resolve the impasse that exists between the two parties.

Since the time of that meeting, Avon performed the concrete removal work during the winter of 2002; and Avon and PRIDCO attempted to negotiate the terms of an agreement pursuant to which Avon would provide to PRIDCO an indemnity in the event of certain defined circumstances relative to the residual contamination at the property, These negotiations proved to be unsuccessful, and PRIDCO was concerned about potential responsibility for cleanup of impacted soils. Because Avon was unwilling to address that medium, the issue of remediation of the residual contamination at the property was not resolved.

To address PRIDCO's concern in that regard, on April 9, 2004, PRIDCO requested that Avon prepare and submit to it a "plan of action" relative to the residual contamination at the property. Since that date, a meeting between a representative of Avon and PRIDCO's Executive Director was held, and additional correspondence has been exchanged between Avon and PRIDCO. By letter dated February 24, 2005, the General Counsel of PRIDCO reaffirmed to Avon PRIDCO's commitment to the "plan of action" approach announced in the April 9, 2004 communication, but also indicated that PRIDCO might be willing to consider an alternative course of action, specifically seeking the involvement of EPA in the matter.

Additional correspondence between Avon and PRIDCO representatives has been exchanged, and a further meeting between representatives of the two parties was held in April 26, 2005. Avon has not submitted to PRIDCO the requested "plan of action." In a letter dated June 2, 2005, on behalf of PRIDCO, we wrote to Avon's outside counsel, "PRIDCO will be seeking to discuss this matter with governmental regulatory agencies." Further, in September 7, 2005, we again wrote to Avon's outside counsel, stating, "PRIDCO has already informed Avon that it will be seeking to discuss the substance of this matter with governmental regulatory authorities".

By letters dated December 22, 2005 and June 20, 2006, the General Counsel of PRIDCO wrote to EPA, providing EPA with information about the background of the matter, relating to EPA the disagreement between PRIDCO and Avon about the applicability to the property of EPA's "contained in policy," and seeking EPA's assistance "in guiding PRIDCO on the requirements governing potential disturbance of the contaminated soils at the property," PRIDCO met with EPA representatives on this topic on April 4, 2007, but, despite numerous follow up efforts, EPA has not provided PRIDCO with the guidance PRIDCO has requested.

By letter dated July 10, 2008, PRIDCO issued to Avon Products, Inc. a "Notice of Intent to File Suit Pursuant to the Resource Conservation and Recovery Act," also known as a citizen suit notice letter. By e-mail dated November 20, 2008, however, outside counsel for Avon was advised that "PRIDCO is not intending to file a lawsuit against Avon at this moment".

As of 2016 PRIDCO has not filed a lawsuit against Avon.

6. Property Formerly Leased by Glamourette/OG, In, in Quebradillas

Glamourette/OG, Inc. ("Glamourette"), a subsidiary of Olympic Mills Corporation d/b/a Olympic Group ("Olympic Mills") formerly leased property from PRIDCO in Quebradillas.

Glamourette converted the petition it had previously filed for reorganization under federal bankruptcy laws to a Chapter 7 Bankruptcy Trustee inspected the former Glamourette property in December, 2002, and 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. We are not aware of any response from EPA to the Bankruptcy Trustee's letter.

Inspections of the former Glamourette property by PRIDCO representatives have led to the discovery of additional potentially significant adverse environmental conditions. It is of the former outside counsel understanding that PRIDCO is in the process of further assessing such conditions, particularly with respect to hundreds of thousands of gallons of what appear to PRIDCO representatives to be process and rain waters and the presence of drums of chemicals, PRIDCO's environmental consultant has solicited proposals from contractors relative to such conditions, but it is currently premature to formulate an opinion on the extent to which conditions at the property will be addressed, by what means, and at what cost.

Former outside counsel understands that EQB has notified PRIDCO of alleged violations at the Quebradillas property and that PRIDCO answered the EQB notice of violations ("NOV") in July 2003. Former outside counsel was informed that PRIDCO, without admitting liability for any violations, voluntarily agreed to take certain precautionary actions to avoid spills at the former Glamourette facility.

We are not aware that EQB has replied to PRIDCO's answer to the letter.

We have been informed that the Bankruptcy Court placed upon PRIDCO certain responsibilities relative to the Quebradillas property, including accepting the surrender of the buildings, machinery and equipment located there, and that a recovery company was retained by PRIDCO to work on the removal of machinery and equipment from the property. In the process, PRIDCO representatives worked with the recovery company to identify areas of potential environmental concern.

A corporation affiliated with Olympic Mills, Lutania Mills Inc. ("Lutania Mills"), whose Chapter 11 bankruptcy case was converted to a Chapter 7 case, previously leased property from PRIDCO in Humacao. Environmental conditions at that property have not been extensively evaluated by PRIDCO to date except to the extent of receiving reports that the wastewater treatment plant may have had operational problems in the past. The extent of environmental contamination attributable to the wastewater treatment plant, if any, is not known.

As was also true in the case of the former Glamourette property, Lutania Mills applied to the Bankruptcy Court for leave to have an environmental consultant assess an environmental issue, in the case of Lutania Mills, the wastewater treatment plant. PRIDCO moved for a significant expansion of any duties assigned to the consultant by the Court. Our understanding is that Lutania Mills application was granted.

Seamless Textiles, Inc. ("Seamless") subleased the Humacao property from Lutania Mills commencing in 1998, and currently seamless leases the property directly from PRIDCO. By letter dated June 20, 2005, Seamless' outside counsel wrote to PRIDCO's General Counsel regarding assessments reports prepared in 1998 and 1999, the latter of which reports indicated that chlorotoluene contamination exists at the dye storage area at the property. The Seamless counsel's letter states that, according to such report, "the concentration found was below the applicable EPA standard that would require any remedial action".

Seamless disclaims responsibility for the abovementioned contamination. The June 20, 2005 letter from Seamless' counsel states that the reports are being presented to PRIDCO among other reasons, "so that PRIDCO may make an assessment of their value and undertake the actions it believes may be appropriate." No claim is asserted by Seamless against PRIDCO in such letter.

As indicated above, knowledge concerning environmental conditions at both the former Glamourette property and the former Lutania Mills property is limited. As a result, it is premature to opine on whether and, if so, what additional investigative and remedial measures are needed to address such conditions, on the costs of any necessary measures, as well as on the likelihood that PRIDCO will be required to bear the entire burden of such costs. Although PRIDCO may engage in some environmental protection measures at one or both of the properties, until additional information is developed, including further proceedings in Bankruptcy Court and, potentially, further action by EQB.

PRIDCO Legal and Environmental Division are going to retake the issue.

7. Property in Ciales occupied by Thermoking

Thermoking made some groundwater studies and the results indicated high level of VOC's.

PRIDCO requested the remediation of the property and after some negotiating Thermoking accepted presenting the case to EQB to receive a clearance of the findings and the site.

On September 2014 Thermoking submitted to PRIDCO the Site Investigation Plan for comments of PRIDCO before submitting it to EQB.

On June 2015 Thermoking submitted to EQB the Site Investigation Plan for its approval.

Thermoking conducted the studies required by EQB at the site.

8. Property in Guayama last occupied by Uniblend Inc.

After an inspection of the property that was abandoned it was found some open containers with unknown liquid. PRIDCO treated the site and disposed the waste in compliance with environmental regulations regarding solid and hazardous waste.

PRIDCO is in the process of conducting an Environmental Assessment, Phase 2 in the property.

9. Property in Dorado

On August 2015, EPA conducted ground water studies near and in PRIDCO's Dorado Industrial Park. The results were clear for groundwater contamination. The soil was found with high levels of arsenic and chromium.

ECONO leased the property and is negotiating the sale of the property.

For that matter, on December 2015 ECONO conducted a phase 2 on the site. There are going to conduct remedial measures to attend the arsenic and chromium found in the soil.

10. Property in Arecibo sold to Battery Recycling

On 2012 EPA issued a letter to Battery Recycling requiring them to comply with some requirements to remedy air emissions of lead and other contaminants.

In a site visit EPA showed PRIDCO informal findings showing high levels of lead contamination in the soil and the apparent man intervention in part of the property.

EPA is going to inform PRIDCO their findings.

11. Property in Mayagüez last occupied by Star Kist

On October 2012 the Municipality of Mayaguez conducted an Environmental Assessment, Phase 1 and Phase 2. The report indicates high levels of Hydrocarbon Total (TPH).

12. Property in Bayamón, occupied by Carreras Trucking

On December 7, 2015 PRIDCO issued a letter to Carreras Trucking requiring environmental corrective measures in the property.

On December 28, 2015 Carreras presented a work plan and is in the process of executing it. The work plan included removal of solid waste. Soil samples for TPH in selected areas.

Carreras executed the remediation required by PRIDCO.

13. Property in San Juan, occupied by Transporte Diaz (L-052-0-25)

On February 22, 2015, PRIDCO issued a letter to Transporte Diaz requiring environmental corrective measures in the property. The letter provided 15 days to contact PRIDCO with a work plan.

Transporte Diaz is in the process of providing PRIDCO a work plan to address the environmental measures required by PRIDCO

14. Property in Ponce, last occupied by Cervezas del Sur

On October 9, 2015 EPA issued a Notice of Responsible party to Coca Cola Bottlers Inc. for an ammonia air emission that occurred on the Property last leased to Cervezas del Sur which now occupies Caribbean Can, a subsidiary of Coca Cola Bottle.

Caribbean Can assumed responsibility for the ammonia emission and with the supervision of EPA and PRIDCO attended the emergency.

PRIDCO is now in the process of negotiating with Caribbean Can the removal of all the equipment from Cervezas del Sur and bought by Caribbean Can.

A lease was signed with Caribbean Can and PRIDCO is supervising their compliance with EPA. They are going to send PRIDCO EPAs clearance after the remediation is finished.

On January 2016 PRIDCO had a meeting with Caribbean Can where they informed the status of the corrective measures taken. PRIDCO asked for several documents and required additional actions to be taken by Caribbean Can.

Cervezas del Sur conducted the corrective environmental measures required by PRIDCO.

15. Property in Arecibo, occupied by Nova Terra

On June 2015 a PRIDCO conducted a Phase 1 of the property. Nova Terra is in the process of leaving the facility. Nova Terra is conducting the corrective environmental measures required by PRIDCO.

16. Property in Salinas, occupied by Universal Plastic

On February 2016, PRIDCO conducted an environmental inspection at the property and found some areas of concern. PRIDCO issued a letter to Universal Plastic requiring corrective measures.

SUBSEQUENT EVENTS

On July 20, 2016, the Governor of Puerto Rico signed the Law 74 which authorized the GDB to consolidate all financing agreements made to governmental entities which are payable with appropriations from the Puerto Rico legislature. Article 4 of such law lists all the governmental entities with financial agreements and the outstanding principal balance and accrued interest as of December 31, 2015. PRIDCO is listed with an outstanding principal balance of \$41.7 million and accrued interest of \$3.1 million as of December 31, 2015.

Also, On March 13, 2017, the Puerto Rico Oversight Board approved and certified the fiscal plan submitted by the Governor of the Commonwealth. This plan, among other things, established that the Government's various taxes, fees and other revenues are used to fund, subsidize or guarantee payments of the debt of many covered entities by various means. Accordingly, the Fiscal Plan does provide for payment of expenses and capital investments in, among other covered entities, the PRIDCO. From a management standpoint, PRIDCO has already taken steps towards reducing its annual operating obligations to promote a positive cash flow trend to provide for bondholder obligations. Issued governmental executive orders applied by PRIDCO enforce said steps and serve as complementary tools enroute to comply with the approved Fiscal Plan.
