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THE NEW BOOM

For decades, Puerto Rico has been recognized as the hub of global investment activity in the Caribbean, its financial success hailed by economists as a case history in economic renewal. Now at the start of the new millennium, **Puerto Rico is swiftly en route to becoming one of the premier global investment centers of the Western hemisphere...** and for very good reason. Local legislation offers unprecedented tax incentives for those investing in the island's booming tourism industry. In 2005, Puerto Rico saw the beginning of over 4,150 rooms equivalent to an investment of \$1.4 billions in new hotel and resort developments, in addition to a dazzling 580,000 square-foot convention center to accommodate thousands of business visitors from around the globe.

THE BEST OF BOTH WORLDS **Puerto Rico** LO MEJOR DE DOS MUNDOS

Today Puerto Rico is a world-class destination that annually attracts close to 3 billion dollars in tourism due to its unique blend of U.S. stateside convenience and exotic international allure. Unlike many warm-weather destinations, Puerto Rico offers state-of-the-art technology, communications, and banking services with the safety, security, and solid backing of U.S. standards and practices. At the same time, Puerto Rico boasts a rich 500 year backdrop of European history and culture; a vibrant Afro-Antillean heritage that expresses itself daily in colorful



Caribbean music, painting, poetry, sculpture, and dance; an urban nightlife that rivals any other major cosmopolitan center; all-day, all-night casino entertainment; superb golfing at eighteen championship golf courses; and just about everywhere you look, a breath-taking landscape that simply beckons for adventure—from an indigenous tropical rainforest to sweeping green valleys and coral-white beaches. Wrap it all up in a sun-baked, beachcomber's climate that lasts virtually 365 days a year and place it just a hop-skip-and-a-jump from the U.S. mainland. Sound like paradise?

Explore Beyond the Shore

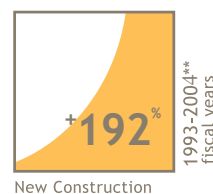
TOURISM DEVELOPMENT ACT

Tourism has always played a quintessential role in Puerto Rico's economic evolution. In the 1990s, Puerto Rico once again renewed its ongoing commitment to the tourism industry with the Tourism Development Act. This bold policy guarantees generous tax incentives and a full menu of significant financial benefits for potential developers and investors in the tourism industry and assures Puerto Rico's long-term commitment to these joint long-term ventures. Puerto Rico's decision to aggressively strengthen the tourism sector led

to the formulation of a comprehensive tourism development policy that examined all aspects of the industry and identified problems and created opportunities. With the passage of enhanced tax and investment incentives, new legislation opened the way for timeshare and vacation-club development. To further ensure the proper conditions for success, legislators approved a reform of Puerto Rico's labor laws and ground transportation regulations, and earmarked funds for major highway and airport improvements. The results: visitor arrivals have increased 31 per cent over the past decade; visitor expenditures have grown 99 per cent; and local construction has more than tripled.

Meanwhile major hotel chains such as the

Carlton, Westin, Wyndham, Inter-Continental, W, Hampton Inn, and the Embassy Suites inaugurated new hotels in Puerto Rico joining the likes of Hilton, Hyatt, Marriott, Best Western, Howard Johnson, Sheraton, Holiday Inn, Four Points Sheraton, and Days Inn. With ever-increasing tourist visitation, greater occupancy, and booming hotel construction and renovation, Puerto Rico is once again the number-one preferred travel destination in the Caribbean.



* Source: *Selected Statistics of the Tourism Industry in Puerto Rico, 2002-2004 Edition*, (Puerto Rico Tourism Company, Office of Research and Statistics).

** Based on total value of construction permits 1993-2004. Commonwealth of Puerto Rico, Government Development Bank, Office of Economic Studies and Analysis).
<http://www.gdb-pur.com>

TAX INCENTIVES FOR TOURISM INVESTORS IN PUERTO RICO

Tax credit equal to **50%** of total cash equity up to **10%** of the total cost of project.

Up to **90%** Puerto Rico income tax exemption for the first ten years, **100%** in Vieques and Culebra.

Up to **90%** municipal property tax exemption.

Up to **100%** municipal license tax exemption for new businesses, **90%** for existing businesses.

Up to **100%** excise tax exemption on imported articles and locally-acquired ones.

Up to **100%** municipal construction excise tax exemption.

Up to an **11%** discount on electrical utility expenses.

SHOW me
The Money



The Tourism Development Act introduced very attractive tax incentives across-the-board for tourism developers, granting all qualified businesses on the main island of Puerto Rico **up to 90% exemption from income tax for ten years** and up to 100% exemption on the islands of Vieques and Culebra. All new facilities, including hotels, condo-hotels, country inns (*paradores*), and timeshare developments qualify for these exemptions. Other tourism-driven businesses and existing facilities may qualify as well. Likewise, all new businesses could qualify for up to 90% exemption from municipal property taxes and

ENHANCED **TAX** INCENTIVES AND BENEFITS

up to 100% exemption from municipal license taxes during this same period. Existing businesses may qualify for up to a 90% municipal tax exemption. New businesses are also 100% exempt from excise taxes on imported articles (except inventory items) not available in Puerto Rico and from municipal construction excise taxes during this period. The commencement date of the exemption period can be postponed for up to three years, allowing businesses to plan and maximize their tax benefits. Another important provision grants a tourism investment tax credit (ITC). The ITC amount is calculated as equal to 50% of the amount of cash-contributed equity or up to 10% of the total cost of the project, whichever is less. The Tourism Development Act grants partners of a special partnership the benefit of limited liability for all debts and obligations of the partnership that arise from activities that occurred prior to dissolving the partnership. The Act also allows investors in tourism projects and any person who acquires an equity interest in a Tourism Venture Capital Fund to claim a tax credit for any loss from the sale or transfer of their equity in the tourism project or investment fund. Additionally, all new businesses qualify for up to an 11% discounted-rate on electrical utility expenses. Finally, another important provision of the Act transfers all approval of exemptions to the Executive Director of the Puerto Rico Tourism Company, subject to the recommendations of the Secretary of the Treasury, and applications must be approved or rejected within six months of their proper filing.

For further details on how the Tourism Development Act makes Puerto Rico the ideal location for your tourism project, please feel free to call us directly. We'll be more than happy to explain our tax incentives program in further detail and answer any questions you might have.

Puerto Rico Tourism Company
Financial Incentives Division
(787) 721-2400 • (787) 721-1932

TOURISM INCENTIVES

2001: To further sweeten Puerto Rico's attractiveness to investors, two new incentives were introduced in 2001 thus facilitating financing and development of new tourism projects.

- **Act No. 141 of October 4, 2001** provides a 100% income tax exemption to associations of legal owners of vacation clubs, hence promoting the development of the time-share industry in Puerto Rico.
- **Act No. 143 of October 4, 2001** provides tax exemption to 100% of the incomes received from fees charged by financial institutions for issuing guarantees or letters of credit to finance tourism development projects. This legislation induces the participation of the private sector in providing financing, guarantees and letters of credit for tourist projects, while fostering job creation.

2003: Act No.62 of June 4, 2003 provides for a 100% income tax exemption to financial institutions regarding interest charges and other income related to the financing of construction related to hotels and condohotels.

2005: One of the new main goals of the Puerto Rico Tourism Company is to assist the municipalitites developing and enhancing its tourism product. To do so the Puerto Rico Tourism Company recently developed "The Municipalities Tourism Incentive Program". This program includes new tourism incentives concerning the following areas: Training, Promotions and Signage. For more information call the "Turismo Interno" Office at (787) 721-2622, Fax (787) 721-4698.

A study by the Organization of American States in Washington D.C. identified the following characteristics as motivating factors for outside investors, imperative to the growth of the tourism industry in any given locale. Puerto Rico is proud to announce that our superior standards both meet and often exceed the worldwide average in each of the following areas:



OAS STUDY

- Effective and reliable infrastructural networks
- A positive popular outlook on tourism development
- Strong marketing efforts by the host country
- Reliable and affordable utilities
- Skilled and trainable labor force
- Co-operative and efficient public sector agencies
- Low income tax rates
- Long-term viability of investment

Source: *The Impact of Tourism Investment Incentives in the Caribbean Region.* (Washington, DC: OAS) 1 vol, [np], 1990. An economic report. The tourism industry. Variously paginated.

Time is money.

FAST-TRACK PERMIT PROCESSING

Fast and efficient processing of permits is part of Puerto Rico's unwavering commitment to the tourism industry. We understand that swift turnaround of approvals is simply non-negotiable. To this end, recent restructuring of administrative offices and proactive local legislation has now housed the responsibility for the supervision of all permit approvals related to tourism projects directly within the offices of the Puerto Rico Tourism Company, allowing potential investors a *one-stop shop* where they can solicit and obtain all necessary permit approvals within six months of application, by law.

Fast-Track Permitting Office

The Puerto Rico Tourism Company's new role as proposing agency brings a new approach to the construction industry. PRTC is now a stronger promoter for the permitting process for new tourist developments. A joint effort among the Planning Board, ARPE, EQB, and PRTC is under effect to complete the permitting process within a maximum of six months. Developers will continue to submit new projects to the Planning Board for approval but will receive PRTC's support for a timely response. At the same time, PRTC will evaluate and support tourist development to comply with Law #9 that regulates the environmental impact in sensitive areas of Puerto Rico. The PRTC will support developers by reviewing and commenting on each particular project submitted for approval.

Centro Expreso de Trámite (Fast-Track Permitting Office)

The CET provides a common ground for developers to submit their project for firsthand comments from major regulatory agencies: ARPE, DTOP, AEE, AAA, and The Department of Agriculture. The process guarantees an answer in five working days for issues requiring infrastructural support to the proposed project.

THE MODEL FOR TOURISM PROJECTS

The Puerto Rico Tourism Incentives Program is based on a model capital structure that assumes a 60-40 debt-to-equity ratio. The debt can be in the form of AFICA bonds (explained in further detail on page 18) or loans from institutional lenders on or off the island, guaranteed by a timely payment from a qualified financial institution or the Puerto Rico Tourism Development Fund. This model also assumes that up to 10% of the total investment will be funded from local investment tax credits as detailed in the chart on the following pages.

HOW YOUR TAX CREDITWORKS

Let's assume the total cost of investment for your tourism development project is one million dollars:

1 The Puerto Rico Tourism Incentives Act is based on a model that assumes a 60/40 debt-to-equity ratio. On a million-dollar investment, your FINANCED DEBT would be \$600,000 and your TOTAL EQUITY would be \$400,000.

2 TOTAL EQUITY includes both CASH EQUITY and the actual LAND VALUE associated with the proposed development. In determining the net cash outlay needed to finance this project, the current LAND VALUE contributes to your total equity and thus reduces your cash obligation. If the current LAND VALUE is, for example, 15% of the total investment, you can subtract 15% of one million dollars (or \$150,000) as the LAND VALUE contribution.*

3 Local legislation provides tourism investors with the option of a TAX CREDIT for a) 50% of CASH EQUITY or b) 10% of TOTAL COST OF INVESTMENT, whichever is less. Normally, you may sell off this tax credit in order to lower your total debt. The tax credit that would apply in this case would be 10% of TOTAL INVESTMENT or \$100,000.** (You may also opt to waive this tax credit and apply it later against future tax obligations on operating revenues).

In summary, to determine the actual net cash outlay needed to finance this one-million dollar tourism project, apply the following formula:

(TOTAL COST OF INVESTMENT) minus (FINANCED DEBT) minus

(LAND VALUE CONTRIBUTION) minus (TAX CREDIT) = NET CASH OUTLAY

4 Applying this formula, your NET CASH OUTLAY would be \$150,000.

* Your remaining CASH EQUITY in this particular case would be \$250,000. To calculate your CASH EQUITY, subtract the contribution of your LAND VALUE contribution from your TOTAL EQUITY as follows: TOTAL EQUITY (\$400,000) minus LAND VALUE contribution (\$150,000) = CASH EQUITY (\$250,000).

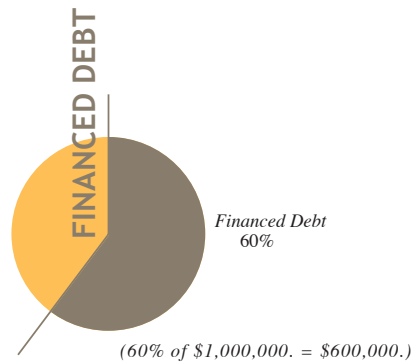
** 50% of your total CASH EQUITY would be \$125,000, which is greater than 10% of TOTAL INVESTMENT.

THE BIG PICTURE

FINANCING YOUR INVESTMENT

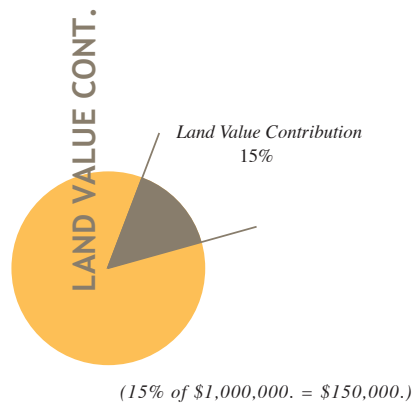
TOTAL COST OF INVESTMENT

\$1,000,000



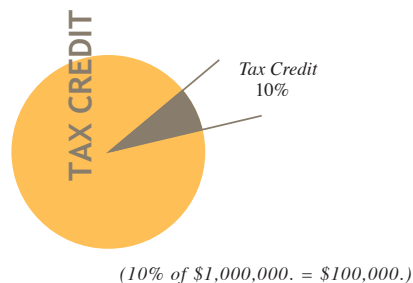
minus
FINANCED DEBT

\$600,000



minus
LAND VALUE CONTRIBUTION

\$150,000



minus
TAX CREDIT

\$100,000

= NET CASH OUTLAY

\$150,000

DEBT FINANCING

Puerto Rico has two programs for debt financing: the Puerto Rico Industrial Tourist Educational Medical and Environmental Control Facilities Financing Authority bond program (commonly known as AFICA) and the Puerto Rico Tourism Development Fund loan-guarantee program. Both programs operate under the aegis of the Government Development Bank for Puerto Rico (GDB). The GDB is a fiscal agent for the government and its agencies and instrumentalities and has control over formulating and implementing economic policy in Puerto Rico. AFICA is an affiliate of the GDB created to provide conduit financing for a broad range of private sector activities, which, like tourism, are deemed important to the economic development of the island. For each approved project, AFICA issues bonds in the Puerto Rico market and lends the bond proceeds to the project. Interest on the bonds is tax-exempt to island residents. The bonds are repaid from the operations cash flow of the underlying project. A bond issue for a particular project may be structured in a number of series, each with different repayment features and varying maturities. Another program, which can be used together



with an AFICA bond issue, is the Puerto Rico Tourism Development Fund (TDF) loan-guarantee program, generally consisting of a timely payment guarantee of principal and interest. TDF is a subsidiary of the GDB. Its sole purpose is to assist in the development and financing of tourism projects in Puerto Rico. TDF has a five-person board consisting of the President of the GDB, the Secretary of the Treasury, the Executive Director of the Tourism Company, and two members of the GDB Board of Directors. This board's composition ensures

that TDF can act quickly and be responsive to the needs of each project. TDF issues timely payment guarantees for loans for tourism projects. In order to obtain a TDF guarantee, a project must, among other things, conform to the standards for granting tax exemptions under the Tourism Development Act, have a minimum 40% equity, and include

certain reserves in its budget. TDF guarantees have received a "BBB-" rating from Standard & Poor's. The loan-guarantee program has successfully guaranteed in excess of \$865 millions in loans to develop tourism projects.

WORKING HAND IN HAND

Loyal long-term partnering with outside investors has been the cornerstone of Puerto Rico's economic success. Through a series of innovative economic development programs that encouraged such financial partnering, developed by then governor Luis Muñoz Marín and named *Operation Bootstrap*, Puerto Rico was able to shift from a predominately agrarian economy in the 1940s to the highly sophisticated manufacturing and service-based economy it enjoys today.



BUILDING FOR THE FUTURE

As you drive along the streets of metropolitan San Juan, everywhere you look there are signs of new construction, new growth, new enterprise. In fact, the total value of construction permits in Puerto Rico has more than tripled since 1993.* The entire city seems to be gazing skyward in contemplation of a brand-new future. Spearheading this momentum of urban renewal are three massive construction projects, all slated for completion within the next few years: an artful trio of architectural wonders that, together, will shape the face of the new San Juan.

COLISEO DE PUERTO RICO

Coliseo de Puerto Rico “José Miguel Agrelot”, a Premier Multipurpose Arena, welcomes you to enjoy a new concept that serves as the setting for higher entertainment in the Caribbean, and Central and South America.

In a business cosmopolitan Hato Rey setting, the avant-garde facilities will offer seating for 18,000 people with state-of-the-art sound, lighting, acoustic and theatrical systems. More events will be able to tour in Puerto Rico, thanks to never-before available features, such as an international -sized ice surface configured to NHL standards, with the capacity for any on-ice traveling show and also configured to NBA standards.

The versatile arena will easily accommodate any size audience, from an intimate theater setting of 3,500 to center stag concerts of 18,000. Coliseo de Puerto Rico is equipped with 22 corporate suites, 4 party suites, 1 VIP Lounge and over thirty concession areas.

Because these facilities are now available in the Island, Coliseo de Puerto Rico will be proud to host concerts, family shows, sporting events, trade shows, conferences and theatrical performances, attracting people from all over the Region.

The management of SMG, the worldwide operator of 182 facilities including the Puerto Rico Convention Center, the Superdome, the London Arena, the Oslo Spectrum and the Pepsi Center, will assure Coliseo de Puerto Rico’s quality of operations, service and resource management through its unparalleled expertise, leadership and creative problem solving. For more information or to arrange a personal meeting to discuss the many possibilities the Coliseo de Puerto Rico has to offer, please feel free to call (787) 777-0800

THE URBAN TRAIN

Acclaimed to be one of the most cost-effective transportation systems ever to be built in the Americas, and certainly one to revolutionize mass transportation in Puerto Rico, the new Urban Train will link all major areas of activity within metropolitan San Juan, including principal business districts, government buildings, shopping centers, and medical complexes. It will operate twenty hours a day at maximum frequencies reaching four-minute intervals during morning and afternoon rush hours. The train, began operations in the year 2004 and is part of the “Ciudad Red” program which is an integrated plan to transform the train stations surrounding areas into urban development combining commercial, residential and business zones. It serves the main destinations in the metropoltn area and transport up to 115,000 passengers daily.

*Source: *A Glance at Puerto Rico’s Economy*, p. 17, Table V-2: “Value of Construction Permits” (San Juan, Puerto Rico: Commonwealth of Puerto Rico, Government Development Bank, Office of Economic Studies and Analysis), 2002.



For further details, please visit
www.prconvention.com
 Booking Agent: Puerto Rico
 Convention Bureau
 1-800-875-4765
www.meetpuertorico.com

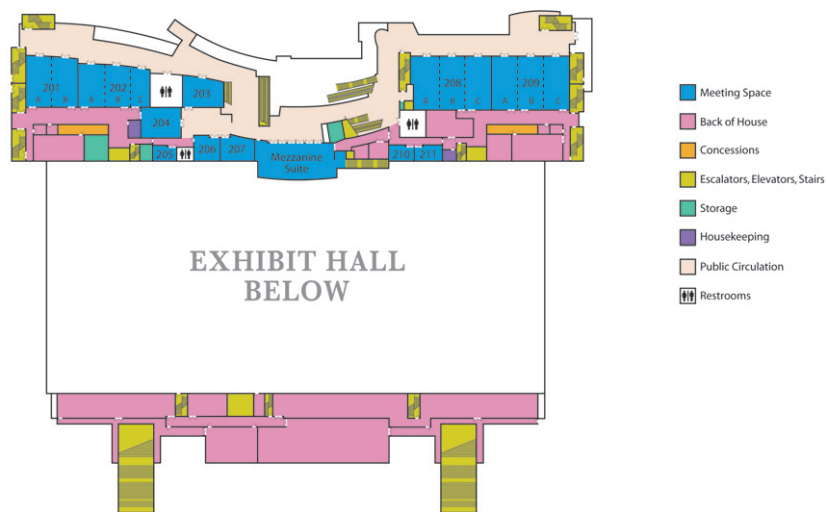
The convention center
 will be the centerpiece
 of an urban-
 redevelopment master
 plan that links the new
 convention center
 district with the
 sixteenth-century port
 of Old San Juan and
 the tourist beach area
 of Condado.

THE PUERTO RICO CONVENTION CENTER DISTRICT

Architecturally designed to recall the shapes and colors of the Caribbean in an elegant yet modern style, this state-of-the-art convention center promises to be a stunning showcase for all Puerto Rico has to offer. The center will span nearly 580,000 gross square feet on a 113-acre site. Conceived as a dynamic urban center, the district will serve as a gathering place for shopping, education, recreation and entertainment, sporting a variety of elegant restaurants, family-style eateries, waterfront cafés, boutiques, art galleries, and its own movie theater complex. The convention center will be the centerpiece of an urban-redevelopment master plan that links the new convention center district with the sixteenth-century port of Old San Juan and the tourist beach area of Condado.

The convention center itself promises to rank at par with the leading convention centers of the world in both design and functionality. Its main exhibition hall will house 3 subdividable exhibition spaces for a total exhibition area of nearly 153,000 square feet with the capacity to accommodate over 10,000 visitors at a time. A 39,500 square-foot ballroom will comfortably seat close to 4,000 visitors in theater-style seating or over 1,900 visitors in banquet-style seating. Furthermore, the center will offer 16 executive-style meeting-rooms, subdividable to 21,

on two separate levels, with a combined meeting space of 40,000 square feet. From the convention center, visitors will be able to enjoy stunning views of the Atlantic Ocean. Fronting the entranceway to the center will be a half-mile long linear park, adorned with tropical gardens, walkways, bike paths, jogging trails, picnic areas, and a pedestrian-friendly promenade, hugging the perimeter of a reflecting pool. A covered Convention Center Boulevard will connect the center to an 500-room hotel and casino. The center is opening in November 2005.



PUERTO RICO FILM COMMISSION

LAW FOR THE DEVELOPMENT OF THE FILM INDUSTRY

Act No. 362 of December 24, 1999

The Puerto Rico Law for the Development of the Film Industry provides benefits in the form of investment tax credits and tax exemptions to investors, producers, and developers of film projects and industry related infrastructure projects. Eligible projects must apply for a license with the Puerto Rico Film Commission. Projects must also be endorsed by the Puerto Rico Film Commission and approved by the Department of the Treasury.

FILM PROJECTS

TYPES OF PROJECTS

The following types of projects qualify for the benefits under the law:

1. Production of feature-length motion pictures;
2. Production of series that meet the following requirements:
 - a. Are distributed outside Puerto Rico; and
 - b. Have a budget of not less than \$1,000,000.
3. Production of catalogues for the sale of articles through the exhibition of professional models for their distribution outside of Puerto Rico; and
4. Production of original soundtrack recordings.

In order to qualify, if not less than 50% of a project's principal photography must take place in Puerto Rico.

TAX BENEFITS

A tax credit is granted to the investors in a Film Project equivalent to 40% of budget items paid to Puerto Rico residents, up to 50% of the cash invested as equity in the project. 50% of the tax credit granted to the investor may be made available to the investor upon investment if a completion bond or a letter of credit is obtained, including the Puerto Rico Secretary of the Treasury as one of the beneficiaries.

INFRASTRUCTURE PROJECTS

The construction or substantial expansion of studios, laboratories, facilities for the international transmission of television images, or other permanent facilities for the production of film projects, with budgets exceeding \$5,000,000, shall qualify for the benefits under the law. A substantial expansion of a project requires an investment equivalent to at least 25% of the fair market value of its assets prior to such expansion.

TAX BENEFITS

A tax credit is granted to investors in an Infrastructure Project equivalent to the lesser of 40% of the cash invested as equity in the project or 20% of the project's total budget.

TAX TREATMENT

Producers or developers licensed under the law are subject to the following tax exemptions among others:

1. Income is subject to a flat 7% tax rate.
2. Dividends or income distributions are 100% tax exempt.
3. Personal property and real estate are 90% exempt from municipal and state taxes.
4. Income is 100% exempt from municipal excise taxes.
5. Net income from the rental of real estate dedicated exclusively to the exploitation of an infrastructure project is subject to a flat 7% tax rate.