

INSIDER VIEW

Puerto Rico

MONDAY, JUNE 3, 2002

A new era of prosperity

ONE OF THE CARIBBEAN REGION'S MOST DYNAMIC ECONOMIES IS SET TO CONSOLIDATE AND ENHANCE ITS TRADITIONAL ROLE AS A FAVORITE DESTINATION FOR U.S. INVESTMENT BY STREAM-

LINING THE PERMIT PROCESS AND PROVIDING FURTHER INCENTIVES. THE ISLAND'S POWERFUL TOURISM INDUSTRY, MEANWHILE, IS HOPING A MAJOR PROMOTIONAL CAMPAIGN PAYS DIVIDENDS



A DIVERSE economic base made up of financial services, tourism and manufacturing has ensured Puerto Rico remains a step ahead of Caribbean neighbors.

PUERTO RICO is a self-governing commonwealth in association with the United States comprised of the main island of Puerto Rico, two smaller islands—Vieques and Culebra—and numerous smaller Caribbean islets. Its head of state is the U.S. president, but the island's government is run by a democratically elected governor, a post currently held by one the commonwealth's

most beloved political leaders, Sila Maria Calderon.

Ms. Calderon, whose Popular Democratic Party gained control of the legislature in the November 2000 elections, is a strong supporter of Puerto Rico's current status with the United States. In other words, rejecting both U.S. statehood as well as other less popular options, such as full independence.

She is also one of the main architects of the Puerto Rican Project for the 21st Century, an ambitious economic and social enterprise for the new century.

The blueprint for the project was based on input from thousands of Puerto Ricans representing the entire economic and social spectrum of the commonwealth who believe that the art of governing is the art of un-

derstanding the governed.

Most notable among the project's 15 priorities is a commitment to attack corruption, making sure that the corrupt are punished accordingly so that the heart and soul of the project, economic development, continues unhindered.

Other important aspects of the 21st century project include more and better housing, the establishment of the drug czar,

as well as improvements in the health, education and transportation sectors.

On the economic scene, Puerto Rico has made wise use of its special relationship with the United States to become a Caribbean economic powerhouse. In fact, if Puerto Rico were an independent nation, it would find itself among

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PUERTO RICO TOURISM COMPANY

FACTS & FIGURES

POPULATION
3,937,316
(July 2001 est.)

AREA
3,459 sq. miles.

LOCATION
Puerto Rico holds an important location along the Mona Passage—a key shipping lane to the Panama Canal, while San Juan is one of the biggest and best natural harbors in the Caribbean

CURRENCY
U.S. dollar

GDP
\$39 billion (2000 est.)
purchasing power parity

NATURAL RESOURCES
Some copper and nickel; potential for onshore and offshore oil

INDUSTRIES
Pharmaceuticals, electronics, apparel, food products, tourism



CAGUAS: A Smart City with a Perfect Vision



Caguas focuses on business-friendly strategies to attract new investments and foster further growth of its existing commercial and industrial base. Its major assets are:

- ✓ **Location:** As the economic hub for the Central-East region of Puerto Rico, it is only 25 superhighway minutes away from the capital and its international airport and major seaport
- ✓ **Workforce:** Availability of a highly skilled workforce to meet the most challenging demands of today's business
- ✓ **Incentives:** Attractive local tax incentives applicable to new businesses or expansions
- ✓ **Services:** One-stop shop service for prospective investors

The dynamic city of Caguas, leader in transportation, telecommunications and new technologies, is in the vanguard of the future.

AUTONOMOUS MUNICIPALITY OF CAGUAS

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Puerto Rico

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America's ten largest trading partners.

The commonwealth's robust economy is based on a diverse industrial sector that has in recent years surpassed agriculture as the primary focus of both economic activity and income.

International companies have invested heavily in Puerto Rico for decades, attracted by duty-free access to the United States and tax incentives.

Puerto Rico's manufacturing industry makes up about 40% of the island's GNP with the pharmaceutical sector leading the way. Eight of the top ten prescription drugs sold in the United States are made in Puerto Rico,

as well as 18% of all pharmaceutical products manufactured in the nation.

Pharmaceutical companies operating on the island currently represent 25% of the value of all drugs made in the United States, and last year the sector employed 132,000 people in Puerto Rico. Electronics, apparel, plastics and chemicals round out Puerto Rico's highly developed manufacturing industry.

The island's tourist industry is also an important source of income, with millions of visitors — mostly from the U.S. mainland — arriving to the Caribbean paradise each year to enjoy its sunny climate, pristine beaches and world-class golf courses. Legal

gaming alone accounts for some \$3 billion in annual earnings, while plans to further develop other areas, such as ecotourism, are expected to bring in billions more.

Information Technology and telecommunications round out Puerto Rico's stable economy. The island's association with the United States has guaranteed that the Puerto Rican IT and telecommunications industries are among the most advanced in the world, and certainly the best in the Caribbean region. And thanks to the hundreds of millions of dollars that pour into the industry annually from knowledgeable private investors, Puerto Rico will remain a regional leader for years to come.



PLAZA SAN JOSÉ (1963)

by Manuel Hernández Acevedo. Part of the permanent collection of the Museo de Arte de Puerto Rico.

Reforms give local firms a competitive edge



THE GOVERNMENT would like to develop high-tech industries and spur manufacturing

GOVERNOR CALDERON'S AMBITIOUS DEVELOPMENT PLANS ARE HELPING PUERTO RICO OVERCOME THE POST SEPTEMBER 11 ECONOMIC SLOW-DOWN BY STIMULATING INVESTMENT IN MANUFACTURING AND FIGHTING CORRUPTION

SINCE MANUFACTURING has traditionally been the engine that drives the Puerto Rican economy, there was understandably quite a bit of nervousness when special tax advantages the commonwealth received through of Section 936 of the U.S. Tax Code were eliminated in 1996. Much of the manufacturing investment on the island was stimulated by the tax advantages in the first place, so there was concern that financing would dry up along with economic growth.

Although Puerto Rico did lose some manufacturing jobs, disaster has been avoided thanks to the capable management of Governor Sila María Calderon and her decision in January 2001 to appoint Ramon Cantero-Frau—an expert in the fields of

investment banking and capital markets—as Secretary of the Department of Economic Development and Commerce.

A former president of the government's Development Bank, Mr. Cantero-Frau was the obvious choice to head a department whose mission is to promote the integral development of a diversified economy in Puerto Rico while attracting new investment to stimulate job creation, the cornerstone of the government's ambitious Puerto Rico Project for the 21st Century.

Mr. Cantero-Frau says there is little time to waste waiting around while lawmakers decide whether to approve an amendment to the U.S. Tax code to provide new federal tax incentives aimed at helping manufacturing companies in Puerto Rico. Instead, he is driving ahead with his agenda to develop high-tech industries, spur manufacturing and to foster the "regionalization" of economic development.

"The government is doing its job, independently of the approval or not of the tax amendment. Local government is developing its own incentive mechanisms to attract foreign investors and to keep them in Puerto Rico," he stresses.

Besides attracting foreign investment, the government is developing new incentive programs aimed at helping small and medium-sized local companies set up, develop and expand their businesses.

"The main competitive advantages we have over potential competitors are a skilled labor

force and a highly developed infrastructure," Mr. Cantero-Frau notes, adding that he is also a strong supporter of the island's commonwealth status because it provides Puerto Rico with the best of both worlds: the advantage of "being part" of the United States while maintaining its own tax system.

According to Mr. Cantero-Frau, one of the keys to developing a successful economic program is having a clean government. This philosophy is why just one day after a scandal broke in January involving millions of dollar in kickbacks, the Calderon government announced a series of measures—including campaign finance reform and a code of ethics for contractors—to address corruption.

Part of the anti-corruption drive included a series of meetings that Mr. Cantero-Frau and Governor Calderon conducted with the heads of the top 50 U.S. firms operating in Puerto Rico to ease their concerns. The message was clear: zero tolerance for corruption. If anyone from the current administration even hinted at asking for kickbacks in exchange for expediting business permits, the CEOs were told, they were to call the governor's office at once.



RAMON CANTERO-FRAU
Secretary of the Department of Economic Development and Commerce

A history of mutually beneficial relations

WHILE THERE are several actors on the Puerto Rican political stage that like to stress the points of friction that sometimes mark Puerto Rican relations with the U.S. federal government, the great majority of the island's residents are proud to be U.S. citizens, and they see that relationship as extremely beneficial to their well-being.

In many aspects, Puerto Rico's disagreements with Washington are curiously state-like, even though in a December 1998 referendum the islanders rejected plans to opt for U.S. statehood.

Five decades ago Puerto Rico was considered the poorhouse of the Caribbean, an economically drained colony with great vision but little hope for the immediate future. But then in 1948,

the island began a four-year long journey towards self-determination with the first ever election of its governor.

Then in 1952 its status as a commonwealth was proclaimed and this year Puerto Rico celebrates the 50th anniversary of its Commonwealth Constitution.

Today, the U.S. Commonwealth of Puerto Rico's economy is highly integrated with that of the mainland United States. During the first two decades following self-determination, the island experienced stellar economic growth. Fiscal autonomy and its relationship with the mainland attracted investments that turned Puerto Rico into a manufacturing powerhouse in the Caribbean.

The island's relations with the

mainland has also been beneficial for the United States as a whole, as Puerto Rico is the largest per capita consumer of U.S. goods and purchases more U.S.-made products than countries such as China, Brazil or Italy.

The current administration of Governor Sila María Calderon, whose Popular Democratic Party founded the Commonwealth, continues to be a strong supporter of the values that characterize the United States, mainly social justice and democracy.

It was that commitment to social justice that spawned U.S.-aided anti-poverty programs on the island that resulted in one of the fastest growing middle classes in the Western Hemisphere, and certainly one of the most democratic.

As in previous wars involving the United States, Puerto Rico's commitment to defend democracy and freedom is alive and well in the current war being waged against international terrorism, which targets the very core of those values.

And for its part, Washington places high importance on Puerto Rico's influence and privileged position within the Caribbean area that has helped seal many regional economic and cultural partnerships.

But perhaps the most treasured aspect of Puerto Rican relations with the mainland is Washington's traditional support of the island's rich culture and heritage and its willingness to allow Puerto Rico to choose its own destiny.

Puerto Rico

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Economic strategy pays off as investors move in

PUERTO RICO'S ADVANTAGEOUS GEOGRAPHICAL LOCATION, BUSINESS-FRIENDLY TAX INCENTIVES, AND FULLY-EQUIPPED INDUSTRIAL PARKS ARE LURING INCREASING NUMBERS OF FOREIGN INVESTORS TO THE ISLAND



PUERTO RICO TOURISM COMPANY

STAIRWAY TO SUCCESS International shopping chains are setting up in Puerto Rico.

IN THESE DAYS of galloping globalization there are more and more countries competing to attract multinational firms whose operations, once up and running, will provide jobs, training, taxes, technology transfer and other benefits.

Many of these countries boast of their low wages, business-friendly environments and other advantages, but according to the Puerto Rican Industrial Development Company, or PRIDCO, few can offer what the island can.

"One thing which companies do not immediately realize is that we operate on the same time zone as the eastern United States," says PRIDCO Executive Director William Riefkohl. "If you compare this with our main competitors, for example Singapore or Ireland, this is a great advantage."

"And, of course, Puerto Rico is the perfect location for a multinational business targeting the North American market. Although globalization has brought international suppliers to Puerto Rico, we are best oriented to the United States and Canada."

Analysts predict that once the planned expansion of the hemispheric free trade area is completed, Puerto Rico will be an even more important business hub for those companies interested in focusing on the North American market. Mr. Riefkohl concurs.

"One could argue that businesses targeting the States should just set up operations in Houston, Miami or San Francisco. But I would argue that they don't have the unique tax advantages Puerto Rico enjoys and which are not applicable anywhere else," he explains. "That makes a huge difference and is probably the greatest reason so many multinationals are here."

Getting the word out on the island's attractions for foreign businesses is PRIDCO's key role, along with encouraging the growth of local industries. It also provides a wide range of ongoing support services for businesses, leases and sells business properties, works with the government to tailor tax, location, infrastructure and R&D incentives, and operates overseas offices to provide information and assistance to potential investors. Agency officials can also aid in developing business strategies, secure different types of business loans, grants and funding, obtain technical assistance and services, and help locate factory and commercial property.

PRIDCO operates one of the three Foreign Trade Zones in Puerto Rico, all of which offer the deferment of U.S. federal customs duties and Puerto Rican excise tax, non-payment of municipal license taxes on exports outside the

United States and other advantages.

The agency's Foreign Trade Zone is considered the largest non-contiguous facility within the United States and its territories and includes 138 industrial parks and 714 buildings around the island. The two other FTZs are in Guaynabo and Ponce.

When Mr. Riefkohl took over as executive director a short time ago, he identified a problem which has long plagued the Puerto Rican economy: that of the island's total industrial output, only 20% came from local businesses while the multinationals accounted for a whopping 80%. "This is despite all the efforts including seminars, training groups, etc. to boost the local share of industrial output and I think the problem is that Puerto Rican manufacturers don't know how to deal with the foreign market," he explains.

"So I came up with the idea of capitalizing on the presence of stores here which are part of multinational chains like Walgreen's, K-Mart, and so on. These stores purchased local products to sell locally or bring in imported merchandise but never bought Puerto Rican goods to sell outside the island. "My plan was to give them a very powerful tax incentive to do just that: buy locally and sell globally. These multinationals will become our exporters and marketers because they have the experience while our local manufacturers can concentrate on production," the executive director says. "I think this is really working well for us."

Puerto Rico enjoys a unique tax advantage system not applicable anywhere else



WILLIAM RIEFKOHL
Executive Director of Puerto Rican Industrial Development Company (PRIDCO)

Creating the financial hub of the Caribbean

PUERTO RICO'S skillfully managed and well capitalized banking industry has had a performance record over the last few years that far outshines the rest of the island's business sectors. When the global economy took a u-turn late last year and slipped into recession, Puerto Rican banks posted record net income levels thanks to the vitality of the island's economy that stayed afloat and even flourished in an atmosphere of low interest rates.

"Things are back to normal in Puerto Rico after the events of September 11 and the economy has been strong. Remember that banking does not create demand, we just finance it," notes Arturo Carrion, executive vice president of the 11-member-strong Bankers Association of Puerto Rico.

"Puerto Rico is a highly consumer oriented economy, we spend more than we earn. That keeps the economy going, but it isn't always good for the consumer. Delinquency in consumer loans is higher here than in the United States, but on the other hand, our banking sector is very strong and well managed. I'm very optimistic about our future," Mr. Carrion explains.

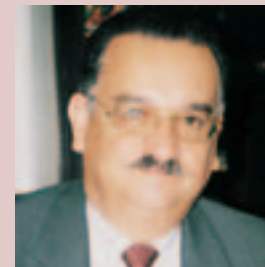
One example of the industry's strength is that overall loan portfolios have grown from \$6.3 billion in 1994, to more than \$30 billion by the end of 2001, with net income levels rising despite the occasional default.

The Commissioner of Financial Institutions heads the government agency that supervises the entire financial industry in Puerto Rico, which is comprised of 15 banks, two

global banks and several smaller lending institutions all together.

According to Antonio Faria, the agency's commissioner, the island's financial system has total assets surpassing \$130 billion; an amount that he says will continue to grow.

"With the integration of brokerage and insurance, we will play a big role in future years. I see the financial sector of Puerto Rico becoming even stronger. The island is very dynamic and creative in terms of the financial sector, and we have developed a lot of new products for investment," Mr. Faria says.



ANTONIO FARIA
Puerto Rican
Commissioner of Financial
Institutions

The current administration's goal is to make Puerto Rico the financial hub of the Caribbean and Central America and foster expansion of Puerto Rican banks into the U.S. market. "Because we have our culture and the American culture, and also because we are bilingual, we are sure we can help many people," notes Mr. Faria.

"The program that we want to develop more is the international entities, because Puerto Rico is the perfect place for these companies to be, either having operations here or providing services to the region."



ARTURO CARRION
Executive Vice President of
the Bankers Association of
Puerto Rico



UP AND UP Loan portfolios reached \$30 billion by the end of 2001.

Imagination is Greater than Knowledge - Albert Einstein

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Puerto Rico



PUERTO RICO TOURISM COMPANY

THE GALLEONS of old have been replaced by container ships, tankers and cruise liners.

The rebirth of Puerto Rican infrastructure

WHEN MULTINATIONAL corporations are casting about for a prime manufacturing and distribution point they look for an excellent geographical situation coupled with world-class transport and communications infrastructure. A long-time international trading hub, Puerto Rico more than fits the bill.

The island's location on major air and maritime routes between North and South America and between the New and the Old World is a distinct advantage in this age of globalization and its sea, air and land transport systems and facilities are among the best in the region. State-of-the-art telecommunications, including high-capacity undersea fiber optic cables and satellite facilities mean that locally-based businesses can be in instant contact with headquarters, partners or customers around the world.

But the island is not resting on its laurels and, through its New Economic Plan, the government is forging ahead with new infrastructure projects which will make Puerto Rico an even more efficient, and exciting, place to do

business and have fun.

As an island, Puerto Rico has played a vital role in maritime transport since the days of the Spanish empire. San Juan Port is undergoing a major overhaul that will make it the premier port in the Caribbean. When it is completed, the San Juan Port Project will provide the latest in industrial, shipping, tourism and residential services in an attractive and harmonized 87-acre complex.

Visitors and locals alike will delight in the project's extensive waterfront green belt and three-million square feet of public and private development providing a memorable gateway to Puerto Rico for the increasing number of passengers arriving at the new cruise ship terminal. Entertainment areas, a nautical museum, a fishing pier, a boardwalk and an aquarium are also planned.

Nearby, the Las Americas World Trade District is aimed at business travelers, convention goers, tourists and local residents. In its more than 11 million square feet of new development, the district will comprise a full-ser-

vice hotel and casino, a retail and entertainment complex, residential and office buildings, yacht clubs and hotel properties for the mid-range market.

Puerto Rican officials also say a sub-district of the development will include the New Puerto Rico Convention Center at an exclusive beachfront location in the heart of the city's main tourist center.

Along with international-class hotels, gourmet restaurants and luxury boutiques and shops, the trade and convention center will also offer a 159,000-square-foot exhibition hall, a 40,000-square-foot banquet room and extensive meeting and presentation halls.

In the south of the island, a world-class transshipment and logistics facility, the Port of the Americas, is under construction to provide services for the region's Techno-Economic Corridor. At the same time, a former U.S. Air Force base is being transformed into the Rafael Hernandez Airport to handle all air cargo operations and is designed to be the perfect complement to the Port of the Americas.

New generation of high-flyers boost exports

THOSE COMPANIES SEARCHING FOR A QUALITY WORKFORCE AND A VIBRANT BUSINESS CLIMATE SHOULD LOOK NO FURTHER THAN PUERTO RICO WHERE THE TIME AND MONEY INVESTED IN EDUCATION AND TRAINING HAVE PAID DIVIDENDS

THE PUERTO RICAN government is well aware that the island's status as a sort of extension of the United States has its pros and cons. And while the advantages are many, one major challenge for the folks at the capital in San Juan is finding a way to become competitive in a region where Puerto Rico simply cannot compete with the cheap labor costs of their Latin American and Caribbean neighbors.

The solution, most government officials agree, is to maintain the island's strong manufacturing position via incentives and infrastructure spending while seeking to attract companies that are involved in high-tech industries that are interested in regions that can supply a quality workforce and a vibrant business environment. Thanks to years of hard work and investment in education, Puerto Rico has both.

Although its name could be the rallying call for Puerto Rico's aspirations for future economic development, Advanced Computer Technology (ACT) is actually the name of a fine-tuned company that happens to be the leading solutions provider and systems integrator in Puerto Rico, the Caribbean and Latin America.

Founded in 1994, ACT's main activities are consulting; business solutions and education services, and making sure its customers extract optimum performance from their computerized systems.

Not only does ACT market hardware and software from such renowned companies as IBM and EMC, it is also a very successful software developer with

annual sales of some \$30 million, notes Eugene S. Hudders, president of ACT and author of five technical books on computing.

"Recently we developed a product called C\TREK which has been our greatest achievement so far. It took us about a year and a half to develop it as a very specialized product directed to the IBM mainframe world. It is installed in Canada and the United States and is the first of six products that we are planning to develop," Mr. Hudders explains.

The practical use of the ACT software is to optimize the use of the IBM mainframe software, and it has done so with amazing success. Currently, ACT has just five people working in development but will increase that number to 35 when its other products enter the design and

development phase, Mr. Hudders explains. "We expect to hire 100 employees in the next few years to work on C\TREK's project management and outsourcing areas."

Manufacturing, the cornerstone of the island's economy, also plays an important role in Puerto Rico's high-tech boom, says Luis Rivera Oyola, CEO and founder of Manufacturing Technology Services (MTS), a multi-million-dollar company that was the first in its sector to obtain the ISO 9002 certificate in Puerto Rico.

MTS provides high technology global electronic contract manufacturing services to local and multinational corporations. Since it began operations in 1996—with three production plants in Puerto Rico, the Dominican Republic and Ireland—MTS has expanded

MTS concentrates labor-intensive aspects of production in the Dominican Republic



MTS was the first Puerto Rican company in the hi-tech sector to receive the ISO 9002 certificate of quality.

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Puerto Rico

5



QUALITY WINS OUT Talent and state-of-the-art infrastructure have enabled Puerto Rico to carve out an enviable position as the Caribbean's hi-tech center.



EUGENE S. HUDDERS
President of Advanced
Computer Technology (ACT)



LUIS RIVERA OYOLA
CEO of Manufacturing
Technology Services (MTS)

from manufacturing towards up-front technology development support services for new venture startups and final product logistics services. "Our main exports are electronic assemblies in the remote-read power meter, industrial equipment controls, etc. Our main business volume is 90% export and 10% local services. We provide those services to local electronics companies and we make them competitive," Mr. Rivera says.

By concentrating labor-intensive aspects of production in places such as the Dominican Republic and Asia, Mr. Rivera explains, MTS can perform the high-tech component manufacturing in Puerto Rico and Ireland, thereby gaining a competitive edge.

"The idea of complementing our operations in Puerto Rico and the Dominican Republic is to be competitive against Mexico. I give the manual work to the Dominican Republic so I can move Puerto Rico

to higher technology. Puerto Rico is not going to compete in manual; we can't," Mr. Rivera points out.

When asked how much he expects MTS to grow within ten years, Mr. Rivera answers without missing a step. "It will probably be bigger than I can handle, globally recognized, with a lot of jobs and still having fun at what we do. This is a relaxed atmosphere. I tell my employees to be themselves. There is dignity and respect for differences."

“The idea of complementing our operations in Puerto Rico and the Dominican Republic is to be competitive against Mexico. I give the manual work to Dominicans so that I can move Puerto Rico to higher technology.

LUIS RIVERA OYOLA,
CEO OF
MANUFACTURING
TECHNOLOGY SERVICES
(MTS)

“We expect to hire 100 employees in the next few years to work on C/TREK's project management and outsourcing areas.

EUGENE S. HUDDERS,
PRESIDENT OF
ADVANCED COMPUTER
TECHNOLOGY (ACT)

“In five years our company has grown from nothing to employing more than 50 people, reaching \$125 million in sales and developing a tremendous product line. That is a major accomplishment.

HECTOR HOYOS,
CHAIRMAN AND
PRESIDENT OF
BIOMETRICS
IMAGINEERING

Cutting-edge technology developer targets software pirates

WHEN IT COMES to high-tech product development, few companies in Puerto Rico—or anywhere else—can match up to Biometrics Imagineering (BI), a U.S. company based in Puerto Rico with offices in Washington D.C. and Madrid, Spain.

Its Cyclops product, for example, is a full-featured solution in a compact keyboard that automatically processes a variety of documents, including checks, deposit slips, payment coupons, insurance claims, loan applications and tax forms, just to name a few.

"The captured image, supported by our own inclusive software, can then either store this information locally or transfer it to a central database. It can scan all sixes, in all direc-

tions without restraint on the part of the user. It is also so user-friendly that a teller or any non-technical user can be trained how to use it in minutes," explains BI chairman and President Hector Hoyos.

One of BI's more advanced products is the I²TM, or Internet Interactive Transaction Machine. "It's a cross between an ATM and an information kiosk," Mr. Hoyos says. "Imagine going to an ATM to pay your bills, see a preview of a movie, buy tickets, file an insurance claim and renew your license all in one machine."

Within a six-month period I²TM was in full operation at 12 different branches of the bank Banco Popular, with some branches reporting up to 1,000 transactions a month, proof

that BI technology and the software it develops works. "We are the only company based in Puerto Rico that is developing technology and is successful. We are making money. In five years we have grown from nothing to employing more than 50 people, reaching \$125 million in sales and developing a tremendous product line. That is a major accomplishment," notes Mr. Hoyos.

The BI chief is popular among his employees and envied by his competitors, and soon he will likely earn the wrath of music and video pirates around the world.

"We have developed a piece of software called Light Speed that will be despised by a lot of people. It identifies, targets and destroys illegal audio and



HECTOR HOYOS Chairman and President of
Biometrics Imagineering (BI)

video files traveling through the Internet," Mr. Hoyos explains. "Part of it is already operating at a certain level, and it has already been demonstrated. We have already met with two companies that are

very interested in it and have made us a big offer. Potential customers include record companies and movie companies around the world... anybody who owns content and wants to protect it."

University provides a bridge to success

ATTRACTING STUDENTS FROM PUERTO RICO, THE AMERICAN CONTINENT AND THE U.S. MAINLAND, THE UNIVERSIDAD INTERAMERICANA DE PUERTO RICO IS THE ISLAND'S LARGEST PRIVATE UNIVERSITY

NINETY YEARS ago last March, Dr. John Will Harris, a Presbyterian with a vision and a knack for teaching who decided to make Puerto Rico his home, founded what was to become one of the leading institutions of higher learning in the Americas, the Universidad Interamericana de Puerto Rico (UIPR).

"It started in 1912 as a school



MANUEL J. FERNOS
President of the Universidad Interamericana de Puerto Rico

in San German, in the south-west. At the beginning it had two students; now we have become the largest private university in Puerto Rico, with more than 40,500 students. There are 11 campuses around the island, an optometry school and a law school. We have campuses in the north, south, east and west, and in the mountains in Barranquitas," explains Manuel J. Fernos, President of UIPR.

Mr. Fernos got his law degree in Puerto Rico and then continued his studies at New York University before returning to the island to work a while as a district attorney before agreeing to teach at the university in 1979. His career at the university was as stellar as the growth of the university itself, rising from dean of the law school to chancellor of UIPR's largest campus—the Metropolitan Campus—and then finally president in 1999.



PUERTO RICO TOURISM COMPANY

"We have 74 majors and we also offer around 24 associate degrees and 44 masters. We have doctoral degrees, such as Communications, Business Administration, Theology and Psychology, which is impressive for an island our size," Mr. Fernos points out.

As one might expect by its name, the Universidad Interamericana attracts students

and professionals from the Hispanic world seeking top educational programs. But it also has its fair share of students from the U.S. mainland and overseas.

"We have consortiums with many universities in the mainland, in Central and South America, and in Europe. The common denominator is that they all see us as a bridge," Mr.

Fernos explains. "In the U.S. they see us as American citizens and Latin Americans, so we are a link to South America. For South America, we are the key to the U.S. Many students from Chile come here to study law instead of going to the U.S., because they don't speak English, and we have a doctoral program of law with a university in Madrid, Spain."

SEAT OF LEARNING
The Universidad Interamericana de Puerto Rico (UIPR) offers 74 majors, 24 associate degrees and 44 masters.

The government of Puerto Rico has long been a big supporter of the island's universities, and there is a long tradition of public and private education in Puerto Rico. The big push for more private universities came as a result of the so-called Operation Bootstrap in the 1940s and Operation Serenity in the 1950s.

"The government of Puerto Rico in the 1940s had a new vision. That generation clearly understood the importance of education," Mr. Fernos points out.

"Our constitution, which was approved in 1952, stated that 10% of the students would go to a public university. I wish I had that percentage; I have to work hard for it. That generation saw education as a way of providing social wealth. In the 1940s, unemployed Puerto Ricans went to the US to work as farmers; now they go to work as NASA engineers, lawyers, nurses, etc. They do get good jobs over there. We don't have jobs for all, but we provide them with a good education."

Caguas: the beating heart of the island

THE DYNAMIC PUERTO RICAN CITY OF CAGUAS HAS SET IN MOTION AMBITIOUS PLANS FOR THE FUTURE WITH THE INTENTION OF CREATING THE ISLAND'S FIRST FULLY DIGITALLY ENABLED CITY

THERE'S MORE than just its strategic location that allows Caguas to proclaim itself 'the heart of Puerto Rico'. It is a place throbbing with life and vitality, and nowhere more so than in the booming business community that has grown up around the economic arteries linking San Juan and Ponce that thrust through the Turabo Valley.

It should come as no surprise that Puerto Rico's fifth-largest city can boast one of the island's highest per capita income and lowest unemployment, as well as a qual-

ity of life factor that has encouraged pharmaceutical, electronic and manufacturing firms such as Panasonic, Avant Technologies, Pharmacia, MOVA Pharmaceutical, and Mylan to set up shop just 20 miles from San Juan International Airport and the harbor facilities available in the capital.

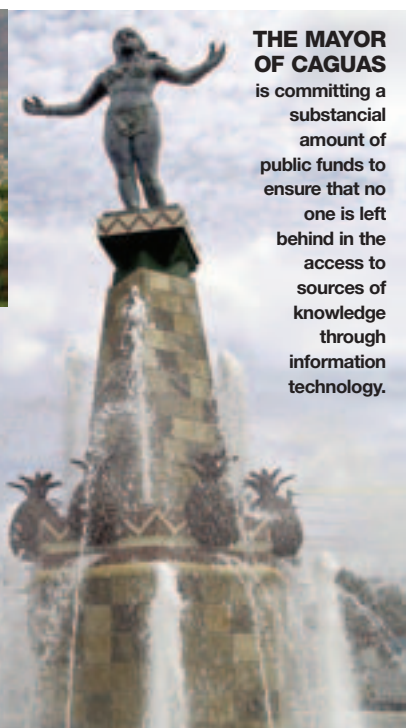
But Caguas' mayor, William Miranda Marín, wants to see the city evolve as it grows, preparing for the future by becoming Puerto Rico's first fully digitally enabled city. To that task, he is bringing the

same single-minded determination that allowed him to rise to the rank of Major General in the National Guard and become a millionaire in the manufacturing sector before being elected the city's mayor in 1996. "The telecom companies have been laying broadband and fiber optic cable throughout the city," says Mr. Miranda. "As we put the infrastructure into place, we want

to make sure that ordinary people in the barrios, not just the start-ups and multinationals, have access to it. We are bridging the digital divide."

All municipal government agencies are digitally interconnected to facilitate delivery of services and Mr. Miranda is especially proud that they are able to process 5,000 requests for information on educational from the Technology Center throughout the city.

Education at all levels is a key concern for this mayor, who has set up vocational and technical training council to ensure that his people acquire the technical skills they need to compete in today's job market. Programs are underway to help show traditional merchants to compete with the big discount houses, along with business management initiatives placing particular emphasis on opportunities for women. "I believe in transforming the city, not only physically but also its human infrastructure," the mayor emphasizes.



THE MAYOR OF CAGUAS is committing a substantial amount of public funds to ensure that no one is left behind in the access to sources of knowledge through information technology.

MUNICIPIO AUTONOMO DE CAGUAS

"We are supporting public and private education initiatives through different programs, including technological training to bridge the digital divide."

By the same token, the administration is giving priority consideration to financing requests from locally owned businesses seeking to install or upgrade their IT systems. A downtown redevelopment project is aimed at attracting back

families into the urban center and more state of the art medical facilities and some professional services. That comes under a comprehensive business development program which offers selective tax incentives in a bid to bolster the economic vitality of the city's core area, suburbs and outlying rural communities.

Mr. Miranda says this program has resulted in 800 direct jobs and

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around 3,000 indirect ones to date. "Right now we are spearheading the establishment of a regional body, that with the support of seven municipalities, private industry and the university, will coordinate further economic development at a regional level that will be mainly based on science and technology, following the model of the Research Triangle in North Carolina."

Financing is also being made available for people who build or rehabilitate private residential or commercial property. This, again, is part of an urban master plan that is more than just cosmetic, one that hopefully will avoid the excesses and anomalies that might occur over the coming two decades, during which time Caguas is expected to double its present size of 140,000 inhabitants. Change on that scale requires a major paradigm shift in the way that city authorities handle issues and problems. Mr. Miranda, his team of associates and the voters who returned them to office two years ago accept growth, but are convinced that it can be managed and contoured so that it does not impact in a negative way on the environment and living standards. Big or small, Caguas still wants to go on being above all a pleasant place to live, visit, and do business under a sustainable development model.



WILLIAM MIRANDA MARÍN
Mayor of Caguas

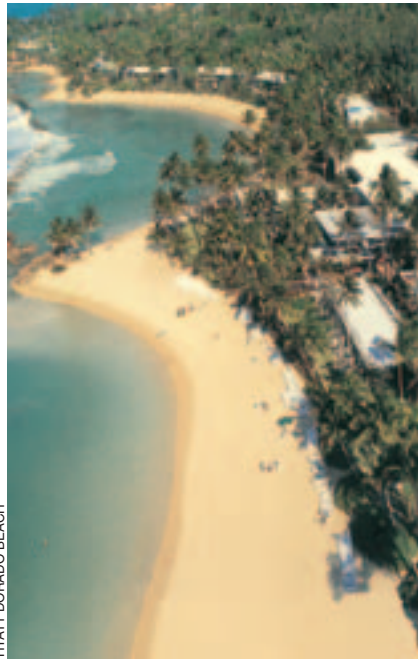
Local operators rise to the challenge

PUERTO RICO'S TRADITIONALLY STRONG TOURISM INDUSTRY HAS ALREADY STARTED TO SHOW SIGNS OF RECOVERY AFTER THE SEPTEMBER 11 ATTACKS ON THE UNITED STATES

DESPITE recent setbacks, such as devastating hurricanes and a slowing world economy, Puerto Rico's tourism industry has bounced back to become even stronger, thanks to the support of the government and private agencies.

And the same has been true after the September 11 terrorist attacks, with the industry putting together a tourism emergency package that included advertising campaigns and a greater focus on the island's secondary markets.

"We anticipate that there is going to be a tremendous amount of volume, not only for the major hotels, but also for the small ones," predicts Rick Newman, president of the Puerto Rico Hotel and Tourism Association. "Groups are going to visit new destinations and they're going to stay longer. That will provide opportunities for small hotels. And it will also force us to



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PUERTO RICO TOURISM COMPANY

SOMETHING FOR EVERYONE The island's year-round sunshine, diverse range of facilities, and geographical proximity make Puerto Rico a favorite vacation spot for U.S. tourists.

increase our inventory. We will have to build 800 to 3,000 additional rooms."

One of the key components for the success of the emergency program was the fast reaction of the government and the private sector, says Milton Segarra, executive director of the Puerto Rico Tourism Company, which is in charge of marketing the island within the tourism industry.

"I was in New York when the September 11 attacks happened, and I had to stay in New Jersey for three days waiting to fly to San Juan. As soon as I came back, we started to work with the board of directors and the Puerto Rico Hotel and Tourism Association,

and we developed some ideas with the government in order to make sure we could create additional demand for Puerto Rico as a vacation spot in a market that was going to be depressed. We also wanted to provide incentives," Mr. Segarra recalls.

One of the most successful characteristics of the program is the Puerto Rico Tourism Company's local marketing campaign, says Mr. Segarra. "People were scared to fly, so we made an aggressive campaign with the local hotels. The northern metropolitan hotels

without casinos had an increase of almost 12 points in November 2001 as compared to November 2000. That gives us an idea of the result of the campaign.

"Most of the recuperation came from the United States. We have several advantages, like easy access to the mainland. Another is that we are bilingual," Mr. Segarra points out. "The same agency that regulates the John F. Kennedy Airport in New York is the one that regulates our airport. The same agency that protects U.S. borders, protects ours. Also, the FBI office in New York is the same

as our office. There are lots of things in common that increase the confidence of the customer. So regardless of our efforts in other markets, such as the European and the Latin American markets, most of the business that we have gained back has come from the U.S. mainland."

The profile of the visitors to Puerto Rico is notable for the fact that 90% of them are college educated and have an average household income of \$104,000. They travel with one or two children and they stay between five to seven days. They want to relax, but at the same time enjoy the modern facilities and learn about the island's culture, which is closely linked to U.S. culture.

"That's what the campaign is presenting," Mr. Segarra explains. "The regular campaign was launched on October 31. There was an empathy campaign before that which had a very soft message. Then we launched the regular campaign, which is very sophisticated. We are presenting Puerto Rico as a destination that offers all sorts of experiences. The Latin market in New York is huge. That's why we used Latin music in our commercials. We present the island to them as an option that is close to home."

The average household income of visitors to Puerto Rico is \$104,000

Diversifying the Puerto Rico tourism experience

MOST VISITORS to Puerto Rico make the capital San Juan, the second oldest city in the Americas, their main destination but few make it out of the historic metropolis because everything they need is easily in reach: clean Caribbean beaches, opera, art galleries, great restaurants, casinos, modern shopping centers and culture, culture, culture.

For years, Puerto Rico has been trying to decentralize and at the same time integrate the tourism industry by making sure that a visit to the island is a complete experience. "Of course if you come to Puerto Rico, you'll want to go to San Juan. We simply want to integrate the rest of it. There are so many other choices," says Milton Segarra, executive director of the Puerto Rico Tourism Company.

"We have a network of roads that can take you from east to west in less than three hours. You can take the highway or the panoramic route through the mountains. We also have a gastronomic program endorsed by the Tourism Company called Mesones Gastronomicos which offers Puerto Rican cuisine at a good price. You can go to Ponce and stay at the Hilton or in a hotel downtown in the historic zone. There you can go to the beach, the museums or visit a restored hacienda."

While some visitors do little else but spend their morning

on one of Puerto Rico's famous golf courses, the afternoon on the beach, and the evening at a fine restaurant before hitting the casinos, others come to sample the island's rich colonial past or hike up to the El Yunque mountain peak, which is surrounded by the beautiful Caribbean National Forest, the only tropical rainforest in the U.S. national park system.

"Our success will depend on the success of our integration. People can stay in San Juan, rent a car and go to Ponce, Salinas, anywhere. In every city there is good accommodation, security, good highways, information, hospitals. All those things make a difference," Mr. Segarra concludes.

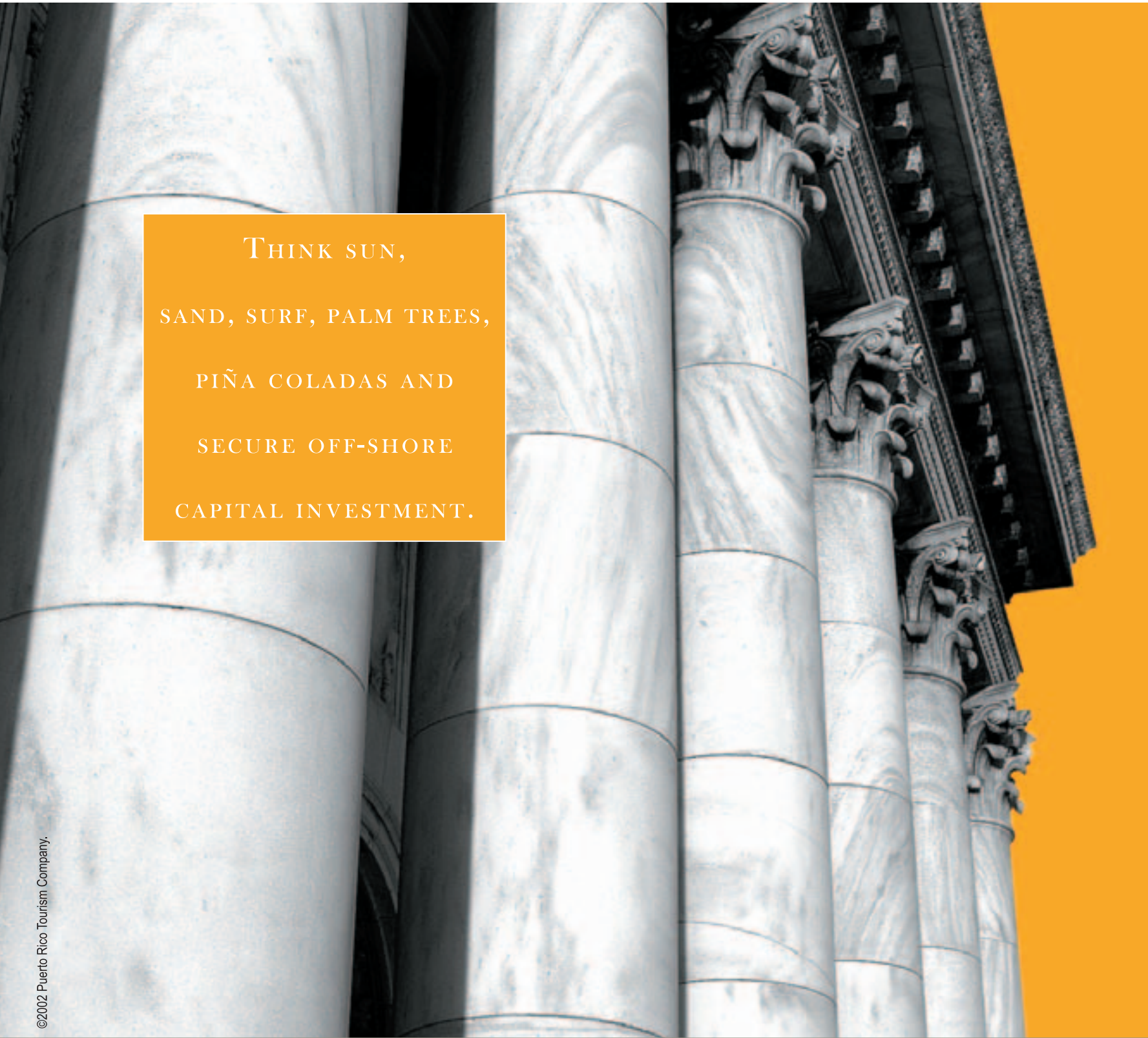


PUERTO RICO TOURISM COMPANY

DANCING IN THE STREETS Puerto Rico's capital San Juan is a vibrant city teeming with culture.

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LIVIN' LA VIDA LOCA? THINK AGAIN. FOR DECADES, PUERTO RICO HAS BEEN RECOGNIZED AS THE FINANCIAL HUB OF THE CARIBBEAN AND HAILED BY ECONOMISTS AS A CASE HISTORY IN ECONOMIC RENEWAL. BUT THAT'S NOT ENOUGH FOR US. NOW, IN THE NEW CENTURY, WE ARE QUICKLY EN ROUTE TO BECOMING ONE OF THE PREMIER GLOBAL INVESTMENT CENTERS OF THE WESTERN HEMISPHERE. AND FOR VERY GOOD REASON. NEWLY INSTITUTED

You're not dreaming ~ You're in Puerto Rico.

LOCAL LEGISLATION PROMISES SUBSTANTIAL TAX BREAKS FOR THOSE INVESTING IN THE ISLAND'S BOOMING TOURISM INDUSTRY. IN FACT, STARTING IN 2002, PUERTO RICO WILL SEE THE BEGINNING OF OVER 336 MILLION DOLLARS IN NEW HOTEL AND RESORT CONSTRUCTION AS PART OF AN OVERALL 1.3 BILLION-DOLLAR PROJECT WITH FIVE MAJOR NEW HOTELS AND AN ALL-INCLUSIVE RESORT NOW UNDER CONSTRUCTION. BY THE YEAR 2004, OUR NEW 1.5 MILLION SQUARE-FOOT CONVENTION CENTER WILL SEAT 10,000 VISITORS. BUT SMART INVESTORS NEED NOT WAIT. PUERTO RICO IS ALREADY A WORLD-CLASS RESORT DESTINATION THAT ATTRACTS NEARLY 3 BILLION DOLLARS A YEAR IN TOURISM DUE TO ITS UNIQUE INTERNATIONAL APPEAL: A RICH BACKDROP OF EUROPEAN HISTORY AND CULTURE, A NIGHTLIFE THAT RIVALS ANY OTHER MAJOR URBAN CENTER, A BREATH-TAKING NATURAL LANDSCAPE, INCLUDING A TROPICAL RAINFOREST THAT JUST BECKONS FOR ADVENTURE, AND OF COURSE, A YEAR-ROUND SUN-BAKED, BEACHLOVER'S CLIMATE—ALL JUST A HOP-SKIP-AND-A-JUMP FROM THE U.S. MAINLAND. NOW WHOEVER SAID YOU CAN'T MIX BUSINESS WITH PLEASURE? LET US SEND YOU A COPY OF OUR FREE INVESTOR'S GUIDE TODAY: 1 (787) 721-2723



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