



2007
ANNUAL REPORT

Dear Shareholder:

The Tax-Free Puerto Rico Fund II, Inc. (the "Fund") is pleased to present its Annual Report to Shareholders for the fiscal year ended November 30, 2007.

INVESTMENT OBJECTIVE

The Fund's investment objective is to provide current income as is consistent with the preservation of capital. To achieve its investment objective, the Fund invests at least 67% of its total assets in a non-diversified portfolio of taxable and tax-exempt securities issued by Puerto Rico issuers (the "Puerto Rico Securities") and up to 33% in securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities and other non-Puerto Rico issuers.

On May 10, 2007, the Board of Directors of the Fund approved an extension to the share repurchase program of the outstanding shares of common stock (the "Repurchase Program"). The Repurchase Program was increased from 5% to 10% and extended for one year. The Repurchase Program is intended to enhance shareholder value by providing additional liquidity to Fund shareholders. During the fiscal year ended November 30, 2007, the Fund repurchased 17,124 shares of common stock in the open market with a Net Asset Value (NAV) of \$153,441 at a cost of \$151,987. The total shares repurchased since the beginning represent .15% of the shares outstanding at the inception of the Repurchase Program.

THE BENEFITS AND RISKS OF LEVERAGE

The Fund is permitted to use leverage in an amount not to exceed 50% of the Fund's total assets. The Fund obtains leverage by borrowing using its investment portfolio as collateral.

Leverage can produce additional income when the income derived from investments financed with borrowed funds exceeds the cost of such funds. In such an event, the Fund's net income will be greater than it would be without leverage. On the other hand, if the income derived from securities purchased with borrowed funds is not sufficient to cover the cost of such funds, the Fund's net income will be less than it would be without leverage.

FUND PERFORMANCE *

The fiscal year ended November 30, 2007 produced a total return of 3.23% based on the market value of the Fund's shares and 4.24% based on NAV. This compares to a market return of 2.60% and NAV return of 5.04% for fiscal year 2006. At November 30, 2007, the market value of the Fund's shares was \$9.70, representing 110% of the net asset value

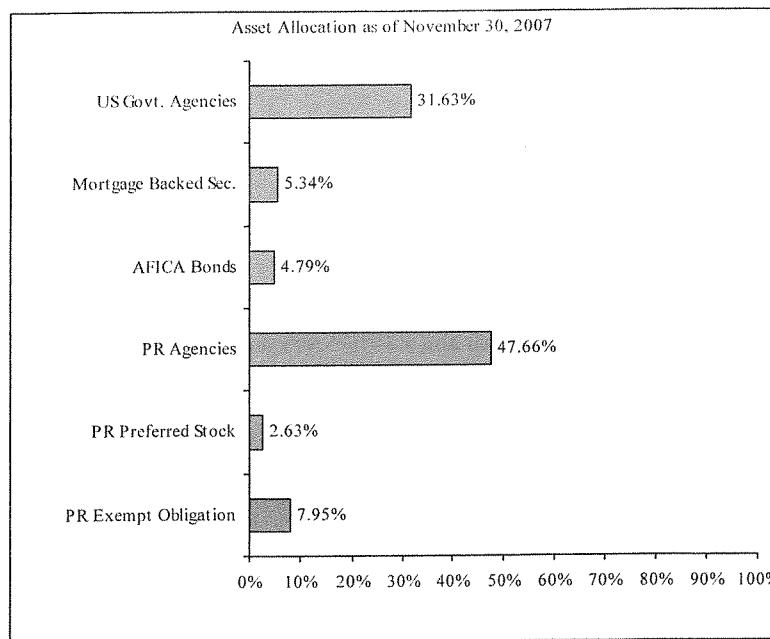
* The following discussion contains financial terms that are defined in the attached Glossary of Fund Terms.

per share of \$8.81. The comparable figure for 2006 was a market value of \$10.05 representing 111% of the 9.04 net asset value per share.

The average dividend yield during the fiscal year ended November 30, 2007, computed over the original investment of \$10 per share, was 5.94%. This compares to a dividend yield of 6.23% during fiscal year 2006. The basis for the dividend distributions is the net investment income for tax purposes. Footnote 11 to the Fund's financial statements sets forth reconciliation between the book net investment income and the tax investment income used for dividend payments.

At November 30, 2007, the weighted-average effective duration of the Fund's investment portfolio was 4.91 years with an average credit quality of A+. The Fund's investment portfolio is comprised of three major investment classes with different duration profiles. The three classes are Puerto Rico bonds, Puerto Rico mortgage backed securities and U.S. Government Agency securities. The weighted average duration of the whole portfolio results from the shorter effective duration of the U.S. Government Agency class (due to their short callable dates), the medium-term duration of the Puerto Rico bond class (depending on the different callable dates) and the expected duration of the Puerto Rico mortgage backed securities (whose durations depends on the prepayments on the underlying mortgages). UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico, considers the full characteristics of each asset class, including duration, in an effort to meet the investment objective of the Fund. The call dates and final maturities of the portfolio are included in the Schedule of Investments in the accompanying financial statements.

Figure 1 below reflects the breakdown of the investment portfolio as of November 30, 2007. For details of the below security categories, please refer to the enclosed Schedule of Investments.



INVESTMENT STRATEGY

The Fund's Investment Adviser selects assets that seek to maximize risk/return relationships while adhering to the Fund's credit quality and asset class constraints. Efficient funding strategies aimed at obtaining lower cost of funds for the Fund's leverage program have been implemented. These include the issuance of Tax-Exempt Secured Obligations, Medium Term Notes and Equity Linked Notes. At November 30, 2007 the Fund had issued \$88.2 million of these securities.

ECONOMIC OVERVIEW

The economic scenario during the Fund's most recent fiscal year was characterized by volatile reactions to the unfolding economic scenario. An economic slowdown that commenced in the sub-prime mortgage market commenced to spillover into other economic sectors. Global financial institutions disclosed increased losses in this sector that eventually affected other markets such as commercial paper, the London Inter-bank Rates ("LIBOR") and corporate lending in general. By July 2007, liquidity was being impacted by the turmoil in the markets. The Federal Reserve's initial response was to lower the discount rate by 50 basis points in August 2007. This was followed by a 50 basis point cut in the Fed Funds rate in September 2007 and 25 basis points in October 2007. The Fed Funds rate stood at 4.50% at November 30, 2007.

The yield curve, which had been either flat or inverted during most of the last tightening cycle, began to return to a more normal shape on May 2007. At November 30, 2007, the spread of the two-year note yield of 2.99% to the ten-year note yield of 3.93% was 94 basis points. This compares to a negative spread of 15 basis points one year earlier when the two-year note yield was 4.60% and the ten-year note was 4.45%.

The Puerto Rico economy is closely linked to that of the United States. Many of the important variables that affect economic growth in Puerto Rico, such as imports, exports, direct investment, interest rates, transfer payments, inflation, and tourism expenditures, are directly related to developments in the United States.

The latest available estimate for Puerto Rico's GDP (expressed in constant prices) for fiscal year 2007, which is prepared by the Puerto Rico Planning Board, projects a decrease in GDP of 1.8%. This compares to growth of 0.7% in 2006, 2.0% in 2005 and 2.8% in 2004. The uncertainty created by the instability of the Puerto Rico government's finances and the increase in the price of oil has affected the economy.

The credit rating of the Government of Puerto Rico was downgraded to Baa3 by Moody's Investors Services on May 8, 2006. The reasons given by that rating agency were the central government's recurring deficit and the lack of consensus between the Executive and Legislative Branches which caused the closing of several governmental agencies during the first two weeks of May 2006. In 2007 the outlook returned to stable. Standard and Poor's, the other major rating agency, downgraded the credit ratings of the central government and the Government Development Bank to BBB- on May 22, 2007,

one year later. The outlook was increased to stable. On December 13, 2007 Standard and Poor's upgraded the GDB back to BBB, stable outlook.

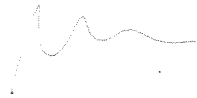
During July 2007, the Puerto Rico Government created the Sales Tax Finance Authority (COFINA) to issue revenue bonds backed by the newly implemented sales and use tax (IVU) to refinance the so-called extra constitutional debt. The COFINA bonds were rated A+ by all three major rating agencies. The goal of this new entity is to eventually refinance 100% of extra constitutional debt, thus reducing the future debt service of the general fund.

For details of the Puerto Rico government bonds owed by the Fund, including the new COFINA bonds, please refer to the attached Schedule of Investments.

OUTLOOK

The Federal Reserve cut the Fed Funds rate 25 basis points in December 2007 and 125 basis points in January 2008 (75 basis points were cut in a rare inter-meeting action). The instability in the credit markets has expanded into the bond insurers and municipal markets. Financial institutions continue to write-off huge amounts of securities. Most market participants expect further cuts in the coming months. Market volatility has remained high and vigilance is warranted as conditions can change rapidly.

UBS Asset Managers of Puerto Rico remains committed to providing professional asset management services to the Fund under any economic condition or financial environment that may materialize in the future, in order to seek profitable opportunities for the benefit of the Fund's shareholders.



Miguel A. Ferrer
Chairman of the Board of Directors and President

GLOSSARY OF FUND TERMS

Bifurcation - A term used in finance that refers to a splitting of something into two separate pieces

Bond - security issued by a government or corporation that obligates the issuer to pay interest income to the bondholder at regular intervals and to repay the entire amount borrowed at maturity date.

Closed-end fund - a fund that issues a fixed amount of capital and shares.

Coupon- the interest rate that a bond promises to pay over its life, expressed as a percent over its face value. In the case of a portfolio, the weighted average coupon of all the bonds in the portfolio is provided.

Credit quality- a measure of the quality and safety of a bond. This measure is provided by a rating from one or more rating agencies and measures the likelihood that a debt issuer will be able to meet scheduled repayments on the debt. The rating agencies assign values to their ratings, AAA being the highest and D the lowest. The Funds typically use the ratings of one or more of the following agencies: Moody's Investors Service, Inc., Standard & Poor's or Fitch, Inc.

Dividend - a per share distribution of the income earned from the fund's portfolio holdings. When a dividend distribution is made, the Fund's net asset value drops by the amount of the distribution because the distribution is no longer considered part of the Fund's assets.

DJIA-AIG Commodity Index Preferred Stocks = Preferred stocks issue by the fund whose dividend payment is linked to the DJIA AIG Commodity Index performance. Commodities are most often used as inputs in the production of other goods or services, some examples are grains, gold, beef, oil and natural gas.

DJIA Preferred Linked Preferred Stocks - Preferred stocks issue by the fund whose dividend payment is linked to the Dow Jones Industrial Average Index (DJIA) performance. The DJIA is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Duration- a mathematical measure of the price sensitivity of a bond's portfolio to changes in interest rates. It measures the change in value of the portfolio that should result from a 1% change in interest rates. Duration is stated in years. In general, the shorter the duration the less sensitive a Fund's portfolio is to changes in interest rates. For a portfolio of bonds, the weighted average of all the Fund's individual securities is provided.

Effective duration- a calculation of duration (see duration above) that takes into account the embedded options in the securities of the portfolio and their expected changes in the cash flow of the portfolio caused by those options.

Embedded derivative - An embedded derivative is part of a contract (a clause or section) which causes the cash flows from that contract to be modified, based on a specified variable such as interest rate, foreign exchange rate, equity index, etc.

Expense ratio- the percentage of a Fund's average net assets attributable to common shareholders used to pay Fund operating expenses. The expense ratio takes into account, investment management fees, administration fees and other operating expenses such as legal, audit, insurance and shareholder communications.

Fund - a company, which combines the investment money of many people whose financial goals are similar and invests that money in a variety of securities.

Index Basket Principal Protected Notes - Notes linked to a basket of stocks that provides for 100% principal protection if held to maturity and the potential for additional returns based on the performance of a basket of stocks.

Interest Rate Swap – an agreement to exchange one interest rate stream for another. No principal changes hands.

Investment Adviser – an investment professional who is responsible for managing a portfolio's assets prudently and making appropriate investment decisions, such as which securities to buy, hold and sell, based on the investment objectives of the portfolio.

Leverage – closed-end funds may issue preferred stock or other debt, reverse repurchase agreements or borrow money to increase the amounts available for investment ("leverage"). This gives the Investment Advisers of closed-end funds in the fixed income area in particular the opportunity to enhance yield. The use of leverage, of course, increases the likelihood of share price volatility and market risk. There is also the risk that the cost to a fund of its leveraged capital, such as preferred stock or debt, will exceed the earnings on the related assets which will have the likely effect of reducing the Fund's yield and the value of your investment in the Fund.

Maturity- the date on which the face value of a bond must be repaid. For a portfolio it is represented in years and measures the average length to maturity of all the bonds in the portfolio. This measure does not take into account embedded options in the bonds comprising the portfolio.

Net Asset Value (NAV) Per Share – the NAV per share is determined by subtracting the fund's total liabilities from its total assets, and dividing that amount by the number of fund shares outstanding.

Notional amount - refers to the specified dollar amount of the swap on which the exchange of interest payments is based.

Premium/discount- the difference between the market price of the shares of a Fund and their NAV. In a case of a premium, the market value is above the NAV. In the case of a discount, the market value is below the NAV. These amounts can be expressed as numerical values or percents. The higher the percent, the larger the difference (positive or negative) between the market and the NAV of a Fund.

Realized Gain (Loss) – the profit (loss) from the sale of securities. Realized gains are paid to Fund shareholders on a per share basis. When a gain distribution is made, the Fund's net asset value drops by the amount of the distribution because the distribution is no longer considered part of the Fund's assets.

Repurchase Agreements – transactions in which the Fund sells securities to a bank or dealer, and agrees to repurchase them at a mutually agreed date and price.

Total Investment Return – the change in value of a Fund investment over a specified period of time, taking into account the change in a Fund's market price and the reinvestment of all Fund distributions.

Turnover Ratio – the Turnover ratio represents the Fund's level of trading activity. The Fund divides the lesser of purchases or sales (expressed in dollars and excluding all securities with maturities of less than one year) by the Fund's average monthly assets.

Undistributed income- the net income of a Fund that has not been distributed to common shareholders as of a particular date. It includes the income earned during the month to be distributed on the 15th of the following month as well as any other amounts retained for future distributions. In the case of the Target Maturity Funds it also includes the amounts to be distributed after the target date to return the initial \$10 investment.

Yield – the annualized rate of income of a Fund. It can be measured as a percent of the initial offering price, the IPO yield or as a percentage of the current price, the market yield..

Tax-Free Puerto Rico Fund II, Inc.

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

FINANCIAL HIGHLIGHTS

		For the fiscal year ended November 30, 2007	For the fiscal year ended November 30, 2006	For the fiscal year ended November 30, 2005	For the fiscal year ended November 30, 2004	For the fiscal year ended November 30, 2003
Increase (Decrease) in Net Asset Value:						
Per Share Operating Performance:	Net asset value applicable to common stock, beginning of period	\$ 9.04	\$ 9.23	\$ 9.58	\$ 9.35	\$ 9.51
	Net investment income (a)	0.54	0.57	0.69	0.70	0.79
	Net realized (loss) gain and unrealized (depreciation) appreciation on investments, swaps and other derivatives	(0.17)	(0.14)	(0.34)	0.26	(0.22)
	Total from investment operations	0.37	0.43	0.35	0.96	0.57
	Less: dividends from net investment income to common shareholders	(0.60)	(0.62)	(0.70)	(0.73)	(0.73)
	Net asset value applicable to common stock, end of period	\$ 8.81	\$ 9.04	\$ 9.23	\$ 9.58	\$ 9.35
	Market value, end of period	\$ 9.70	\$ 10.05	\$ 10.50	\$ 10.98	\$ 10.80
Total Investment Return: (f)	(b) Based on market price per share	3.23%	2.60%	3.05%	10.02%	14.40%
	(g) Based on net asset value per share	4.24%	5.04%	3.83%	10.67%	6.43%
Ratios: (c)	(d) (e) Expenses to average net assets applicable to common shareholders - net of waived fees	6.04%	5.79%	4.65%	3.57%	2.93%
	(e) Operating expenses to average net assets applicable to common shareholders-net of waived fees	1.35%	1.38%	1.38%	1.39%	1.37%
	Interest and leverage related expenses to average net assets applicable to common shareholders	4.70%	4.41%	3.27%	2.18%	1.56%
	(e) Net investment income to average net assets applicable to common shareholders-net of waived fees	6.05%	6.45%	7.36%	7.59%	8.65%
Supplemental Data:	Net assets applicable to common shareholders, end of period (in thousands)	\$ 209,807	\$ 209,802	\$ 207,715	\$ 207,726	\$ 195,564
	Portfolio turnover	5.48%	5.07%	37.54%	29.84%	71.52%
	Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and from mortgage backed securities paydowns	5.40%	5.07%	16.99%	3.72%	6.63%

- (a) Based on average outstanding common shares of 23,529,764; 22,882,782; 22,093,119; 21,283,799 and 20,583,637 for the fiscal years ended November 30, 2007, November 30, 2006, November 30, 2005, November 30, 2004 and November 30, 2003, respectively.
- (b) Calculations are based on beginning and end of period market values provided by UBS Financial Services Incorporated of Puerto Rico, a dealer of the Fund's shares and an affiliated party. The market prices shown may reflect limited trading in the shares of the Fund.
- (c) Based on average net assets applicable to common shareholders of \$205,691,314; \$204,660,072; \$200,477,042; \$191,942,793 and \$166,176,525 for the fiscal years ended November 30, 2007, November 30, 2006, November 30, 2005 and November 30, 2004 and November 30, 2003, respectively.
- (d) "Expenses" include both operating and interest and leverage related expenses.
- (e) The effect of the expenses waived for the fiscal years ended November 30, 2007; November 30, 2006, November 30, 2005, November 30, 2004 and November 30, 2003 was to decrease the expense ratios, thus increasing the net investment income ratio to average net assets by 0.49% for each of the fiscal years presented.
- (f) Dividends are assumed to be reinvested at the per share net asset value on the date dividends are paid.
- (g) Calculations are based on beginning and end of period net asset values.

The accompanying notes are integral part of these financial statements.

Tax Free Puerto Rico Fund II, Inc.

SCHEDULE OF INVESTMENTS

November 30, 2007

Face Amount	Issuer	Coupon	Next Callable Date ^D	Maturity Date	Market Value
Puerto Rico Exempt Obligations - 15.64% of net assets applicable to common shareholders					
8,575,000	H I C Puerto Rico AAA Portfolio Target Maturity Fund Medium Term Note	7.63%	08/29/08	08/29/22	8,553,563
1,025,000	H I C Puerto Rico Fixed Income Fund III Medium Term Note	7.63%	08/29/08	08/29/22	1,022,438
1,300,000	H I C Puerto Rico Fixed Income Fund IV Medium Term Note	7.63%	08/29/08	08/29/22	1,296,750
800,000	H I C Puerto Rico GNMA & US Government Target Maturity Fund Medium Term Note	7.63%	08/29/08	08/29/22	798,000
10,000,000	I F Puerto Rico Conservation Trust Note	6.55%	03/05/17	07/00/00	7,700,000
3,500,000	E I C Puerto Rico Conservation Trust Note	5.70%	12/01/09	06/01/32	3,141,250
1,000,000	I G Puerto Rico Conservation Trust Note	6.50%	04/01/11	04/01/16	870,000
10,000,000	I G Puerto Rico Conservation Trust Note	6.25%	05/01/22	05/01/22	7,875,000
2,000,000	I F Puerto Rico Conservation Trust Note	6.00%	12/15/09	12/15/34	1,560,000
\$ 38,200,000					\$ 32,817,000
Puerto Rico Agencies- 93.77% of net assets applicable to common shareholders					
6,500,000	C Puerto Rico Government Development Bank Note	5.90%	03/01/08	04/01/31	6,471,270
235,000	C Puerto Rico Public Finance Corp	6.15%	08/01/09	08/01/24	244,123
5,815,000	C Puerto Rico Public Finance Corp	6.15%	08/01/09	08/01/24	5,837,911
5,000	C Puerto Rico Public Finance Corp	7.00%	08/01/08	08/01/15	5,135
645,000	C Puerto Rico Public Finance Corp	7.00%	08/01/08	08/01/15	659,035
150,765,000	C Puerto Rico Public Finance Corp	6.25%	08/01/10	08/01/24	151,805,279
730,000	C Puerto Rico Sales Tax 2007 Series B	0.00%	08/01/17	08/01/30	180,493
3,670,000	C Puerto Rico Sales Tax 2007 Series B	6.05%	08/01/17	08/01/37	3,672,275
2,475,000	C Puerto Rico Sales Tax 2007 Series B	6.35%	08/01/17	08/01/57	2,482,153
460,000	C Puerto Rico Sales Tax 2007 Series B	0.00%	08/01/17	08/01/29	120,968
1,470,000	C Puerto Rico Sales Tax 2007 Series B	0.00%	08/01/17	08/01/31	340,790
3,700,000	C Puerto Rico Sales Tax 2007 Series B	0.00%	08/01/17	08/01/32	804,861
3,670,000	C Puerto Rico Sales Tax 2007 Series B	6.05%	08/01/17	08/01/38	3,649,632
830,000	C Puerto Rico Sales Tax 2007 Series B	6.05%	08/01/17	07/01/39	824,190
830,000	C Puerto Rico Sales Tax 2007 Series B	6.05%	08/01/17	08/01/39	824,190
2,475,000	C Puerto Rico Sales Tax 2007 Series B	6.35%	08/01/17	05/01/57	2,482,153
2,475,000	C Puerto Rico Sales Tax 2007 Series B	6.35%	08/01/17	08/01/57	2,482,153
2,475,000	C Puerto Rico Sales Tax 2007 Series B	6.35%	08/01/17	07/01/57	2,482,153
7,750,000	C Puerto Rico Industrial Development Company	6.65%	07/01/08	07/01/15	7,845,945
3,910,000	C Puerto Rico Industrial Development Company	5.25%	07/01/11	07/01/28	3,529,401
\$ 200,885,000					\$ 196,744,108
AFICA^A Bonds - 9.42% of net assets applicable to common shareholders					
2,725,000	C Ashford Presbyterian Community Hospital Parking Project	6.70%	05/01/08	11/01/20	2,758,928
1,600,000	C Doral Financial Center Project	6.90%	12/01/09	06/01/26	1,596,672
775,000	C El Nuevo Dia Project	6.15%	12/01/09	12/01/26	775,171
10,000	C Hampton Inn Hotel Project	7.15%	01/07/08	09/01/20	10,028
230,000	C Humacao Judicial Center Project	6.25%	01/07/08	10/01/30	230,354
60,000	C Palmas del Mar Country Club Project	7.00%	06/20/08	12/20/18	60,685
985,000	C Palmas del Mar Country Club Project	7.25%	06/20/08	12/20/30	966,229
6,000,000	C San Patricio Project	6.25%	08/01/10	06/01/32	6,023,700
1,000,000	C Torre Chardon Project	6.15%	03/01/10	03/01/24	1,002,620
6,250,000	C Torre Chardon Project	6.25%	03/01/10	03/01/32	6,273,313
40,000	C Coco Beach Golf & Country Club Project	7.13%	06/20/08	12/20/28	40,216
\$ 19,875,000					\$ 19,767,914
Puerto Rico Preferred Stock and Trust Preferred Securities - 5.17% of net assets applicable to common shareholders					
\$ 2,000,000	Doral Financial Corporation Series C	7.25%	01/07/08	Perpetual	\$ 1,200,000
8,035,000	Popular Inc. Trust Preferred	6.70%	11/01/08	11/01/33	8,031,786
3,000,000	W Holding Company	6.70%	12/21/09	Perpetual	1,820,000
\$ 13,035,000.00					\$ 10,851,786
Principal Outstanding Amount					
Mortgage Backed Securities^B - 10.50% of net assets applicable to common shareholders					
20,000,456	C I Doral Financial Participation Certificate - FHAVVA	7.15%		08/19/09	19,987,956
2,035,828	C I Doral Financial Participation Certificate Series C	6.69%		12/01/31	2,034,556
\$ 22,036,284					\$ 22,022,512
US Government, Agency and Instrumentality - 62.24% of net assets applicable to common shareholders					
10,340,000	C Federal Home Loan Bank	6.25%	02/23/06	11/23/26	10,376,903
1,061,429	C Federal Home Loan Bank	6.00%	04/01/08	04/01/24	1,062,903
27,000,000	C Federal Home Loan Bank	6.00%	02/16/08	11/15/24	27,049,372
3,000,000	C Federal Home Loan Bank	6.00%	02/16/08	11/15/24	3,004,314
7,300,000	C Federal Home Loan Bank	5.81%	03/16/08	03/14/25	7,295,657
6,500,000	C Federal Home Loan Bank	5.81%	03/24/08	03/24/25	6,492,608
28,200,000	C Federal Home Loan Bank	5.75%	03/30/08	06/30/25	28,103,359
6,500,000	C Federal Home Loan Bank	5.75%	04/07/08	07/07/25	6,477,543
14,000,000	C Federal Home Loan Bank	5.76%	04/03/08	07/03/25	13,958,560
10,000,000	C Federal Home Loan Bank	5.75%	01/21/08	07/21/25	9,942,530
6,720,000	C Federal Home Loan Bank	6.00%	02/22/08	08/22/25	6,732,587
6,730,000	C Federal Home Loan Bank	6.01%	02/28/08	08/28/25	6,745,479
3,340,000	C Federal Home Loan Bank	6.00%	03/19/08	09/19/25	3,342,570
\$ 130,691,429					\$ 130,584,663
Total investments (196.74% of net assets applicable to common shareholders)					\$ 412,787,981
Interest rate swaps, (-0.83% of net assets)					(1,759,440)
Liabilities and net assets applicable to common shareholders minus other assets (-95.90% of net assets applicable to common shareholders)					(201,221,848)
Net assets applicable to common shareholders - 100%					\$ 209,806,693

- A AFICA - Puerto Rico Industrial Tourism, Medical, Educational and Environmental Pollution Controls Financing Authority.
- B Certificate is collateralized by mortgage-backed obligations guaranteed by the Federal Housing Administration. They are subject to prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- C A portion or all of the security has been pledged as collateral for securities sold under agreements to repurchase, collateralized notes payable or swaps.
- D The issuer has the ability, but not the obligation, to call these securities on these dates.
- E Notes are collateralized by Santander Bancorp Corporation Senior Notes.
- F Notes are collateralized by R&G Trust Preferred Securities.
- G Notes are collateralized by Doral Financial Corporation Senior Notes.
- H Note from an affiliated Fund
- I Private Placement

The accompanying notes are an integral part of these financial statements.

TAX-FREE PUERTO RICO FUND II, INC.

STATEMENT OF ASSETS AND LIABILITIES

November 30, 2007

Assets:	Investments in securities:		
	Securities pledged as collateral on repurchase agreements and swaps, at market value (identified cost - \$126,089,813)	\$	126,369,714
	Other securities, at market value (identified cost - \$293,242,065)		286,418,267
	Cash		844,320
	Interest rate swap, at value		1,047,674
	Interest and dividends receivable		3,816,846
	Deferred debt issue cost		206,025
	Prepaid expenses and other assets		182,462
	Total assets		418,885,308

Liabilities:	Securities sold under repurchase agreements		117,175,000
	Short-term notes		17,727,000
	Medium-term notes		59,290,000
	Interest rate swaps, at value		2,807,114
	Payables:		
	Interest and leverage expenses	540,066	
	Investment advisory fees	171,441	
	Administration fees	51,432	762,939
	Accrued expenses and other liabilities		74,972
	Principal Protected Notes Linked to a Global Index Basket, 2007 Series B, with a principal value of \$11,000,000		11,241,590
	Total liabilities		209,078,615

Net Assets Applicable to Common Shareholders: **\$ 209,806,693**

**Net Assets Applicable
to Common Shareholders**

consist of:	Capital stock, \$0.01 par value, 88,000,000 shares authorized, 23,825,701 issued and outstanding	\$	238,257
	Paid-in capital		225,511,846
	Undistributed net investment income (Note 1 and Note 11)		805,768
	Accumulated net realized loss from investments, swaps and medium-term notes		(8,580,945)
	Unrealized net depreciation on investments, swaps and other derivatives		(8,168,233)
	Net assets applicable to common shareholders	\$	209,806,693
	 Net asset value applicable to common shares - per share; 23,825,701 shares outstanding	 \$	 8.81

The accompanying notes are an integral part of these financial statements.

TAX-FREE PUERTO RICO FUND II, INC.**STATEMENT OF OPERATIONS**For the fiscal year
ended November
30, 2007

Investment income:	Interest	\$ 24,354,591
	Dividends	<u>884,344</u>
	Total income	<u>25,238,935</u>
Expenses:	Interest and leverage related expenses	9,801,348
	Investment advisory fees	3,043,303
	Administration fees	608,661
	Professional fees	79,966
	Directors' fees and expenses	29,999
	Insurance expense	21,222
	Other	<u>42,384</u>
	Total expenses	13,626,883
	Waived investment advisory fees	<u>(1,014,434)</u>
	Net expenses after fees waived by investment advisor	<u>12,612,449</u>
Net investment income:		<u>12,626,486</u>
Realized Loss and Unrealized Depreciation on Investments, Swaps, medium-term notes and other Derivatives:	Net realized loss on investments, swaps and medium-term notes	(83,382)
	Change in unrealized net depreciation on investments, swaps and other derivatives	<u>(3,906,761)</u>
	Total net loss	<u>(3,990,143)</u>
	Net increase in net assets resulting from operations	<u>\$ 8,636,343</u>

The accompanying notes are an integral part of these financial statements.

TAX-FREE PUERTO RICO FUND II, INC.

STATEMENT OF CHANGES IN NET ASSETS

	For the fiscal year ended November 30, 2007	For the fiscal year ended November 30, 2006
Increase (Decrease) in Net Assets:		
Net investment income	\$ 12,626,486	\$ 13,209,369
Net realized loss on investments, swaps and medium-term notes	(83,382)	(411,821)
Change in unrealized net depreciation on investments, swaps and other derivatives	(3,906,761)	(2,649,204)
Net increase in net assets resulting from operations	<u>8,636,343</u>	<u>10,148,344</u>
Dividends to Common Shareholders From:		
Net investment income	<u>(14,023,475)</u>	<u>(14,293,579)</u>
Capital Share Transactions:		
Increase in net assets derived from reinvestment of dividends	5,543,630	6,385,190
Repurchase of common shares	<u>(151,987)</u>	<u>(152,801)</u>
	<u>5,391,643</u>	<u>6,232,389</u>
Net Assets:		
Net increase in net assets applicable to common shareholders	<u>4,511</u>	<u>2,087,154</u>
Net assets at the beginning of the year	<u>209,802,182</u>	<u>207,715,028</u>
Net assets at end of the year*	<u>\$ 209,806,693</u>	<u>\$ 209,802,182</u>
* Including undistributed net investment income of \$805,768 at November 30, 2007, as follows:		
Beginning balance at November 30, 2006		\$ 2,202,757
Net investment income available for distribution to common shareholders		12,626,486
Less: dividends paid to common shareholders		<u>(14,023,475)</u>
Balance at November 30, 2007		<u>\$ 805,768</u>

The accompanying notes are an integral part of these financial statements.

TAX-FREE PUERTO RICO FUND II, INC.**STATEMENT OF CASH FLOWS****For the fiscal
year ended
November 30,
2007****Increase (Decrease) in Cash**

Cash Used by	Purchases of portfolio securities	\$ (44,783,765)
Operations:	Sales of portfolio securities	21,804,950
	Maturity of portfolio securities	6,424,925
	Proceeds from mortgage-backed securities paydowns	318,356
	Net realized gain on swaps and repayments of medium-term notes	911,668
	Amortization of deferred debt issue costs	149,506
	Net investment income	12,626,486
	Adjusted by:	
	Accretion of discounts on investments	(45,858)
	Amortization of premiums on investments	136,298
	Accretion of discounts on index notes	170,668
	Decrease in interest and dividends receivable	290,209
	Increase in prepaid expenses and other assets	(161,234)
	Decrease in interest payable	(171,136)
	Increase in administration fees payable	5,635
	Increase in investment advisory fees payable	1,691
	Decrease in accrued expenses and other liabilities	(6,863)
	Total cash used by operations	<u>(2,328,464)</u>

Cash Provided by	Repurchase agreements and short-term notes, net of repayments	
Financing Activities:	of \$1,425,919,034	(3,019,244)
	Issuance medium-term notes	28,147,257
	Repayments of medium-term notes	(24,112,257)
	Issuance of index notes	11,000,000
	Dividends to common shareholders paid in cash	(8,479,845)
	Debt issue costs	(314,733)
	Repurchase of common shares	(151,987)
	Total cash provided by financing activities	<u>3,069,191</u>

Cash :	Net increase in cash for the year	740,727
	Cash at the beginning of the year	<u>103,593</u>
	Cash at the end of the year	<u>844,320</u>

Cash Flow	Cash paid for interest and leverage related expenses	\$ 9,605,451
Information:	Non cash activities - dividends reinvested by common shareholders	<u>\$ 5,543,630</u>

The accompanying notes are an integral part of these financial statements.

Tax-Free Puerto Rico Fund II, Inc.
Notes to Financial Statements
November 30, 2007

1. Reporting Entity and Significant Accounting Policies:

Tax-Free Puerto Rico Fund II, Inc. (the "Fund") is a non-diversified, closed-end management investment company. The Fund is a corporation organized under the laws of the Commonwealth of Puerto Rico and is registered as an investment company under the Puerto Rico Investment Companies Act, as amended (the "Puerto Rico Investment Companies Act"). The Fund was incorporated on December 20, 2001 and started operations on January 29, 2002.

The following is a summary of the Fund's more significant accounting policies:

Valuation of Investments

All securities are valued by the Fund Administrator on the basis of valuations provided by dealers or by pricing services which were approved by the Fund's management and the Board of Directors. In arriving at their valuation, pricing sources may use both a grid matrix of securities values as well as the evaluations of their staff. The valuation, in either case, is based on information concerning actual market transactions and quotations from dealers or a grid matrix performed by an outside vendor that reviews certain market and security factors to arrive at a bid price for a specific security. Certain Puerto Rico obligations have a limited number of market participants and thus, might not have a readily ascertainable market value and may have periods of illiquidity.

Temporary cash investments are valued at amortized cost, which approximates market value.

Taxation

As a registered investment company under the Puerto Rico Investment Companies Act, the Fund will not be subject to Puerto Rico income tax for any taxable year if it distributes at least 90% of its net taxable investment income for such year, as determined for these purposes. Accordingly, as the Fund intends to meet this distribution requirement, the income earned by the Fund is not subject to Puerto Rico income tax at the Fund level.

The Fund can invest in taxable and tax-exempt securities. In general, distributions of taxable dividends to Puerto Rico individuals are subject to a 10% withholding tax, if certain requirements are met. The 10% tax is withheld by the Fund at the time of payment. Otherwise, taxable distributions will be subject to the regular income tax. Puerto Rico entities receiving distributions of taxable income are entitled to claim an 85% dividend received deduction. Fund shareholders are advised to consult their own tax advisers.

For Puerto Rico income tax purposes, the Fund had capital losses at November 30, 2007 which are available to offset future capital gains, if any.

Capital losses available for carryover expire as follows:

Fiscal year	Amount
2008	\$ 7,841,647
2009	36,589
2010	168,999
2011	902,436
2012	952,120
Total carryforward available	<u>\$ 9,901,791</u>

Tax-Free Puerto Rico Fund II, Inc.

Notes to Financial Statements

November 30, 2007

Statement of Cash Flows

The Fund issues its shares, invests in securities and distributes dividends from net investment income and net realized gains which are paid in cash or are reinvested at the discretion of the shareholders. These activities are reported in the Statement of Changes in Net Assets. Additional information on cash receipts and payments is presented in the Statement of Cash Flows.

Accounting practices that do not affect the reporting of activities on a cash basis include carrying investments at value and amortizing premiums or discounts on debt obligations. Cash, as presented on the Statement of Assets and Liabilities, does not include short-term investments.

Dividends and Distributions to Shareholders

Dividends from net investment income are declared and paid monthly. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income earned in other periods in order to permit the Fund a more stable level of distribution. The Fund records dividends on the declaration date.

Interest Rate Swaps

In managing its cost of funds and interest rate risk, as well as for hedging purposes, the Fund enters into interest rate swap agreements. Interest rate swap transactions involve an agreement between two parties to exchange interest rate payments that are calculated on the basis of a specified amount of principal (the "notional principal amount") for a specified period of time. The Fund usually enters into interest rate swaps on a net basis, (*i.e.* the two payment streams are netted out), with the Fund receiving or paying, as the case may be, only the net amount of the two payments.

These types of transactions subject the Fund to the risk that a counterparty will default on its obligation to the Fund. The Fund attempts to control such risk by entering into these transactions only with banks and recognized securities dealers believed by the Fund's investment adviser to present minimal risk in accordance with the guidelines of the Board of Directors. These types of transactions are also subject to market risk as interest rates and market prices fluctuate. The Fund's management enters into these transactions in an attempt to improve funding costs rather than speculate on interest rate changes. The Fund may enter into additional transactions as market conditions change.

Swap agreements are marked to prices provided by an independent source. Changes in the value of the swap agreements are reported separately in the Statement of Assets and Liabilities and as a component of the change in unrealized net appreciation (depreciation) on investments, swaps and other derivatives in the Statement of Operations.

The Fund records collections or periodic payments on interest rate swaps as a component of net realized gain or loss on investments and swaps in the Statement of Operations. For the fiscal year ended November 30, 2007, the Fund received net collections of \$868,738 from swap counterparties. For purposes of dividend distributions and for the determination of compliance with the 90% threshold for purposes of the Fund's tax exemption, swap periodic collections are included as a component of net investment income. (See Note 11).

Securities Sold Under Repurchase Agreements (Repurchase Agreements)

Under these agreements, the Fund sells securities, receives cash in exchange and agrees to repurchase the securities at a mutually agreed date and price. Ordinarily, those counterparties with which the Fund enters into these agreements require delivery of collateral and are able to repledge the collateral, however, the Fund retains effective control over such collateral through the agreement to repurchase the collateral before their maturity. These transactions are treated as financings and recorded as liabilities. Therefore, no gain or loss is recognized on the transaction and the securities pledged as collateral remain recorded as assets of the Fund.

Tax-Free Puerto Rico Fund II, Inc.

Notes to Financial Statements

November 30, 2007

Short-Term and Medium-Term Notes

The Fund has a short-term and medium-term notes payable program as a funding vehicle to increase the amounts available for investments. The short-term and medium-term notes may be issued from time to time in denominations of \$25,000, or as may otherwise be specified in a supplement to the Offering Circular. The notes may be collateralized by the pledge of certain securities of the Fund. The pledged securities are held by UBS Trust Company of Puerto Rico ("UBSTC"), or its agents, as collateral agents for the benefit of the holders of the notes. Fees related to the issuance of medium-term notes are amortized throughout the term of the note or until its first callable date.

Paydowns

Realized gains and losses on mortgage-backed security paydowns are recorded as an adjustment to interest income as required by accounting principles generally accepted in the United States of America ("US GAAP"). The Fund declares and pays monthly dividends from net investment income. For purposes of compliance with the 90% threshold for purposes of the Fund's tax exemption, gains and losses related to mortgage-backed security paydowns are not included in net investment income. (See Note 11). During the fiscal year ended November 30, 2007, the Fund did not have any realized gain or loss on mortgage-backed security paydowns.

Preferred Shares

Pursuant to the Fund's certificate of incorporation, as amended and supplemented, the Fund's Board of Directors is authorized to issue up to 12,000,000 preferred shares, with a par value of \$25, in one or more series. As of November 30, 2007, the Fund has not issued any preferred shares.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with US GAAP requires the Fund's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Other

Security transactions are accounted for on the trade date (the date the order to buy or sell is executed). Realized gains and losses on security transactions are determined on the identified cost method. Premiums and discounts on securities purchased are amortized over the life or the expected life of the respective securities. Interest and dividend income is accrued daily except when collection is not expected.

2. Investment Advisory, Administrative, Custodian, Transfer Agency Agreements and Other Transactions with Affiliates

Pursuant to an investment advisory contract (the "Advisory Agreement") with UBS Asset Managers of Puerto Rico, a division of UBSTC, the Fund receives investment advisory services in exchange for a fee. For the fiscal year ended November 30, 2007, gross investment advisory fees amounted to \$3,043,303 equivalent to 0.75% of the Fund's average weekly gross assets. The Investment Advisers waived investment advisory fees in the amount of \$1,014,434, for a net fee of \$2,028,869, representing an effective annual rate of 0.50%.

UBSTC also provides administrative, custody and transfer agency services pursuant to Administration, Custodian and Transfer Agency, Registrar, and Shareholder Servicing Agreements. UBSTC provides facilities and personnel to the Fund for the performance of administrator duties. For the fiscal year ended November 30, 2007, the gross fee for such services amounted to \$608,661, equivalent to 0.15% of the Fund's average weekly gross assets, as defined above.

No administration, custody or transfer agent fees were waived for the fiscal year ended November 30, 2007.

Tax-Free Puerto Rico Fund II, Inc.

Notes to Financial Statements
November 30, 2007

The Fund is not registered under the U.S. Investment Company Act of 1940, as amended, and therefore is not subject to the restrictions contained therein regarding, among other things, transactions between the Fund and UBS Financial Services Incorporated of Puerto Rico ("UBS") or its affiliates ("Affiliated Transactions"). In that regard, the Board of Directors of the Fund adopted a set of Procedures ("Procedures") for Affiliated Transactions in an effort to address potential conflicts of interest that may arise. Affiliated Transactions are conducted in accordance with those Procedures.

It is anticipated that Affiliated Transactions will continue to take place in the future and that any Affiliated Transactions will be subject to the Procedures.

UBS is the Fund's dealer on the offering of short-term and medium-term notes. Selling fees amounting to \$314,733 and \$4,906 were paid to UBS during the fiscal year ended November 30, 2007 related to the offering of medium-term notes and short-term notes, respectively.

Certain officers and directors of the Fund are also officers and directors of UBSTC. The five independent directors of the Fund's Board of Directors are paid based upon an agreed fee of \$1,000 per board meeting plus expenses and \$500 for each meeting plus expenses of the Fund's Audit Committee. For the fiscal year ended November 30, 2007, the five independent directors of the Fund were paid an aggregate compensation of approximately \$23,000.

The total amount (in thousands) of other affiliated and unaffiliated purchases and sales of investment securities and originations of securities sold under repurchase agreements, listed by counterparty during the year were as follows:

	Purchases	%	Sales	%	Securities Sold Under Repurchase Agreements	%
UBS	\$ 20,264	45%	\$ 3,756	17%	\$ 582,450	50%
Between Funds	11,700 [^]	26%	-	-	-	-
Unaffiliated	12,820	29%	18,049	83%	575,250	50%
Total	\$ 44,784	100%	\$ 21,805	100%	\$ 1,157,700	100%

[^] Include purchase of medium-term notes amounted to \$11,700,000 issued by an affiliated party, which generated an exempt interest income of \$252,932 during the fiscal year ended November 30, 2007, as follows:

Issuer	Principal Amount held at beginning of the year	Additions	Reductions	Principal Amount held at end of the year	Value at end of the year	Interest Income	Realized Gain/Loss
PR GNMA & US Government Target Maturity Fund	\$ -	800,000	\$ -	800,000	\$ 798,000	17,294	\$ -
PR Fixed Income Fund IV	-	1,300,000	-	1,300,000	1,296,750	28,103	-
PR AAA Portfolio Target Maturity Fund	-	8,575,000	-	8,575,000	8,553,563	185,377	-
PR Fixed Income Fund III	-	1,025,000	-	1,025,000	1,022,438	22,158	-
	\$ -	\$ 11,700,000	\$ -	\$ 11,700,000	\$ 11,670,750	\$ 252,932	\$ -

Tax-Free Puerto Rico Fund II, Inc.
Notes to Financial Statements
November 30, 2007

3. Capital Share Transactions

The Fund is authorized to issue up to 88,000,000 common shares, par value \$0.01 per share.

Capital share transactions for the fiscal years ended November 30, 2007 and 2006 were as follows:

Common Shares	Dollar Amount 2007	Dollar Amount 2006
Proceeds from the reinvestment of dividends	\$ 5,543,630	\$ 6,385,190
Repurchase of common shares	<u>(151,987)</u>	<u>(152,801)</u>
Total	<u>\$ 5,391,643</u>	<u>\$ 6,232,389</u>

Transactions in common shares during the fiscal years ended November 30, 2007 and 2006 were as follows:

	2007	2006
Common shares - beginning of fiscal year	23,216,238	22,515,574
Shares issued due to the reinvestment of dividends	626,587	717,976
Shares repurchased	<u>(17,124)</u>	<u>(17,312)</u>
Common shares - end of fiscal year	<u>23,825,701</u>	<u>23,216,238</u>

The Fund's Board of Directors has authorized the repurchase of the Fund's shares on the open market when the shares are trading at or below NAV of the shares. During the fiscal year ended November 30, 2007, the Fund repurchased 17,124 common shares in the open market with net assets valued at \$153,441 at a cost of \$151,987.

4. Investment Transactions

The cost of securities purchased and proceeds from sales and maturities of portfolio securities (in thousands) for the fiscal year ended November 30, 2007 were as follows:

	Purchases	Sales	Maturities
Puerto Rico Obligations	\$ 44,784	\$ 6,395	\$ 6,425
US Obligations	<u>-</u>	<u>15,410</u>	<u>-</u>
	<u>\$ 44,784</u>	<u>\$ 21,805</u>	<u>\$ 6,425</u>

Tax-Free Puerto Rico Fund II, Inc.
Notes to Financial Statements
November 30, 2007

The Fund has the following swap agreements in place at November 30, 2007:

Counterparty	Notional Amount (#)	Fair Value (#)	To be Received		To be Paid		Expiration Date	
			Rate at 11/30/2007	Type	Rate at 11/30/2007	Type		
Barclays	5,000,000	(21)	6.20%	F	5.24%	V#	08/28/21	B
Barclays	10,000,000	(11)	6.08%	F	5.24%	V#	09/28/21	B
Barclays	5,000,000	(2)	6.20%	F	5.24%	V#	08/28/21	B
Bear Stearns	10,200,000	653	7.63%	E	4.63%	V## ¹	08/29/22	A
Bear Stearns	5,000,000	(21)	5.90%	F	5.24%	V#	01/30/22	B
Merill Lynch	5,000,000	(2)	4.94%	F	5.24%	V#	02/28/08	B
Bear Stearns	5,680,000	(2)	5.10%	V	5.24%	V#	07/15/08	B
Bear Stearns	4,000,000	(6)	4.95%	F	5.24%	V#	04/01/10	B
Merill Lynch	9,410,000	(130)	5.58%	V	5.24%	V#	07/31/18	A
Barclays	20,100,000	14	6.43%	F	5.24%	V#	12/20/21	B
Bear Stearns	38,000,000	(1,340)	5.24%	V#	4.20%	F	07/17/17	B
HSBC	11,000,000	304	C	C	4.54%	V# ¹	05/28/10	D
Bear Stearns	6,000,000	77	5.24%	V#	2.50%	F	06/19/08	
Santander	36,500,000	(1,272)	5.24%	V#	4.25%	F	05/15/16	A
		<u>\$ (1,759)</u>						

- # Amount in thousands of dollars
- F Fixed
- V Variable
- V# 1 Month Libor
- V#¹ 1 Month Libor minus a predetermined spread specified in the swap agreements.
- V##¹ 3 Month Libor minus a predetermined spread specified in the swap agreements.
- A Counterparty has the option to terminate these swaps on a quarterly basis on the date specified in the swap agreements.
- B Counterparty has the option to terminate these swaps on a monthly basis on the date specified in the swap agreements.
- C On the termination date the counterparty will pay the fund interests in an amount equal to the interest payment as defined in Note 8 for the Principal Protection Notes Linked to a Global Index Basket.
- D This equity index swap is related to the Principal Protected Notes Linked to a Global Basket Index, 2007 Series B.
- E The coupon is received as long as the 3 month LIBOR-BBA is within a specific range, otherwise the coupon is reduced to 0% for that particular day, in that case the coupon on the related MTN is also reduced to 0%.

At November 30, 2007, investment securities amounting to \$4,431,083 were pledged as collateral for swap agreements. The counterparties have the right to sell or repledge the assets during the term of the swap agreement. Amounts payable on interest rate swaps amounted to \$199,488 at November 30, 2007.

Tax-Free Puerto Rico Fund II, Inc.

Notes to Financial Statements

November 30, 2007

5. Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements amounted to \$117,175,000, from which \$55,100,000 are with an affiliated party at November 30, 2007; related information is as follows:

Weighted average interest rate at end of the year	<u>4.66%</u>
Maximum aggregate balance outstanding at any time of the year	<u>\$ 122,275,000</u>
Average balance outstanding during the year	<u>\$ 111,056,301</u>
Average interest rate during the year	<u>5.27%</u>

At November 30, 2007, interest rates on securities sold under repurchase agreement ranged from 4.45% to 5.00%, with maturity dates up to February 19, 2008.

At November 30, 2007, investment securities amounting to \$121,938,631 were pledged as collateral for securities sold under repurchase agreements. The counterparties have the right to sell or repledge the assets during the term of the repurchase agreement transactions with the Fund. Interest payable on securities sold under repurchase agreements amounted to \$237,598 at November 30, 2007.

6. Short-Term Notes

Short-term notes amounted to \$17,727,000 at November 30, 2007; related information follows:

Weighted average interest rate at end of the year	<u>4.21%</u>
Maximum aggregate balance outstanding at any time of the year	<u>\$ 22,667,303</u>
Average balance outstanding during the year	<u>\$ 16,937,225</u>
Average interest rate during the year	<u>4.40%</u>

At November 30, 2007, interest rates on short-term notes ranged from 3.80% to 4.50%, with maturities up to April 29, 2008.

At November 30, 2007, investment securities amounting to \$33,190,634 are pledged as collateral for these notes. The counterparties do not have the right to sell or repledge the assets. Interest payable on short-term notes amounted to \$58,124 at November 30, 2007.

7. Medium-Term Notes

Weighted average interest rate at end of year	<u>4.78%</u>
Maximum aggregate balance outstanding at any time during the year	<u>\$ 81,812,257</u>
Average balance outstanding during the year	<u>\$ 67,398,857</u>
Average interest rate during the year	<u>4.30%</u>

Tax-Free Puerto Rico Fund II, Inc.
Notes to Financial Statements
November 30, 2007

At November 30, 2007, the Fund had issued and outstanding the following medium-term notes:

Amount #	Interest Rate	Maturity
\$ 5,000,000	5.75%	08/28/21
4,000,000	4.55%	04/01/10
5,680,000	4.70%	07/15/08
5,000,000	4.49%	02/28/08
5,000,000	5.75%	08/28/21
10,000,000	5.75%	09/28/21
5,000,000	5.60%	01/30/22
9,410,000	5.08%	07/31/18
10,200,000	A	08/29/22
\$ 59,290,000		

Amount in thousands of dollars

A The coupon of 7.63% is paid if the related swap agreement coupon is received, as long as 3 month LIBOR-BBA is within a specific range, otherwise the coupon is reduced to 0% for that particular day.

At November 30, 2007, investment securities amounting to \$139,426,995 were pledged as collateral for these notes. The counterparties do not have the right to sell or repledge these securities. Interest payable on medium-term notes, amounted to \$44,856 at November 30, 2007.

At November 30, 2007, the Fund had outstanding Principal Protected Notes Linked to a Global Index Basket, 2007 Series B. The Notes are part of a Series of debt securities entitled "Medium-Term Notes, 2007 Series B."

(a) Principal Protected Notes Linked to a Global Index Basket, 2007 Series B

The notes are medium-term notes issued by the Fund on May 25, 2007, offering full principal protection and participation in the appreciation of certain Indices each subject to the Maximum Annual Index Return. The notes are linked in equal parts to the performance of a basket consisting in two (2) equity indices, namely, the S&P BRIC 40® Index and the Dow Jones EURO STOXX 50® Index.

On May 25, 2007 the Fund offered \$11,000,000 worth of 100% Principal Protected Notes Linked to a Global Index Basket, 2007 Series B (the "Notes"). In the future, the Fund may issue 100% Principal Protected Notes Linked to a Global Index Basket in one or more series, by means of other supplements to the Offering Circular. The Fund may only issue preferred stock, debt securities, or other forms of leverage to the extent that immediately after any such issuance, the value of the Fund's total assets, less all the Fund's liabilities and indebtedness that are not represented by preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is equal to or greater than the total of 200% of the aggregate par value of all outstanding preferred stock and the total amount outstanding of debt securities and other forms of leverage issued by the Fund. On May 28, 2010 (the "Maturity Date"), the Notes will mature and the Fund will make a cash payment per Note equal to 100% of the principal amount per Note of \$1,000. The Notes are not subject to redemption prior to the Maturity Date.

Tax-Free Puerto Rico Fund II, Inc.

Notes to Financial Statements

November 30, 2007

Note payments will consist of (i) an Annual Interest Payment on the Notes to be paid on May 30, 2008; May 29, 2009 and May 28, 2010, respectively (each, an "Annual Interest Payment Date"); provided, that if any such date is not an Exchange Business Day, any such scheduled Annual Interest Payment will be paid the next following Exchange Business Day; and (ii) the return of 100% of the principal amount of the Notes on the Maturity Date.

On each Annual Interest Payment Date, the Fund will make a cash payment per Note equal to the Annual Interest Payment. The Annual Interest Payment on the Notes will be linked in equal parts to the performance of a basket consisting of two (2) equity indices, namely, the S&P BRIC 40® Index and the Dow Jones EURO STOXX 50® Index (each, an "Index" and collectively, the "Indices"). The performance of the Indices will be measured by the percentage change in the closing value of each Index from May 25, 2007, (with respect to each Index, the "Initial Index Value"), to the fifth Exchange Business Day prior to the respective Annual Interest Payment Date each such percentage change being capped at a maximum percentage of 8.10% (the "Maximum Annual Index Return"). The Initial Index Value for the S&P BRIC 40® Index is 2,215.65. The Initial Index Value for the Dow Jones EURO STOXX 50® Index is 4,463.52.

The effective yield to maturity on the debt component on the Notes as of November 30, 2007 is 3.41%. As of November 30, 2007, an embedded derivative amounting to \$1,139,943 is linked to the Notes. The Notes have a fair value of \$11,032,010 and a carrying value of \$11,241,590 including the embedded derivatives.

8. Short-Term and Long Term Financial Instruments

The fair value of short-term financial instruments, which includes \$117,175,000 of securities sold under repurchase agreements and \$17,727,000 of short-term notes, are substantially the same as the carrying amount reflected in the Statement of Assets and Liabilities, as these are reasonable estimates of fair values, given the relatively short period of time between origination of the instrument and their expected realization. Medium-term notes have a fair value of \$59,263,851 and a carrying value of \$59,290,000.

9. Concentration of Credit Risk

Concentration of credit risk that arises from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentration of credit risk arises from the Fund's investment securities in relation to the location of issuers. For calculating concentration, all securities guaranteed by the U.S. Government or any of its subdivisions are excluded. At November 30, 2007, the Fund has investments with an aggregate market value of approximately \$282,203,318 which were issued by entities located in the Commonwealth of Puerto Rico and are not guaranteed by the U.S. Government or any of its subdivisions.

As stated in the Prospectus, the Fund will ordinarily invest at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers ("the 67% Investment Requirement"). These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, organizations, agencies, and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of Puerto Rico entities, and other securities consistent with the Fund's investment objectives and policies as defined in the Prospectus (the "Puerto Rico Securities"). Therefore, the Fund is more susceptible to factors affecting issuers of Puerto Rico Securities than an investment company that is not concentrated in Puerto Rico Securities to such degree.

Tax-Free Puerto Rico Fund II, Inc.

Notes to Financial Statements

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10. Investment and Other Requirements and Limitations

The Fund is subject to certain requirements and limitations related to investments and leverage. Some of these requirements and limitations are imposed by statute or by regulation while others are imposed by procedures established by the Board of Directors. The most significant requirements and limitations are discussed below.

The Fund must invest at least 67% of its total assets Puerto Rico Securities. Up to 33% of its total assets may be invested in taxable and tax-exempt securities issued by the United States government, its political subdivisions, its agencies and instrumentalities and municipal securities issued in the United States. From time to time, the Fund may not comply with the 67% Investment Requirement, due to a lack of availability of acceptable Puerto Rico Securities.

The Fund's leverage, as measured in relation to total assets, may not exceed 50%. Should this ratio be exceeded, the Fund is precluded from further leverage transactions until the maximum 50% ratio is restored.

11. Reconciliation Between Taxable and Book Net Investment Income

As a result of certain reclassifications made for financial statement presentation, the Fund's net investment income according to the financial statements is not the same net investment income for income tax purposes, as follows:

Net investment income	\$ 12,626,486
Reclassification of swap periodic collections	868,738
Accretion of index notes	<u>170,668</u>
Net investment income for tax purposes	<u>\$ 13,665,892</u>

The basis for dividend distributions is the net investment income for tax purposes as determined above. The Fund's policy, as stated in the Prospectus, is to distribute substantially all net investment income. In order to maintain a stable level of dividends, however, the Fund may at times pay more or less than the net investment income earned in a particular year.

For the fiscal year ended November 30, 2007, the Fund had distributed \$14,023,475 of the total net investment income of \$13,665,892 for tax purposes. The undistributed net investment income (for tax purposes) at November 30, 2007 was as follows:

Undistributed net investment income for tax purposes at the beginning of the year	\$ 2,675,328
Net investment income for tax purposes	13,665,892
Dividends paid to common shareholders	<u>(14,023,475)</u>
Undistributed net investment income for tax purposes at end of year	<u>\$ 2,317,745</u>

Tax-Free Puerto Rico Fund II, Inc.
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12. Subsequent Events

On December 9, 2007, the Board of Directors declared an ordinary net investment income dividend of \$0.05042 per common share, totaling \$1,201,292 and payable on December 17, 2007, to common shareholders of record as of November 30, 2007.

On January 10, 2008, the Board of Directors declared an ordinary net investment income dividend of \$0.05083 per common share, totaling \$1,213,811 and payable on January 15, 2008, to common shareholders of record as of December 31, 2007.

On February 8, 2008, the Board of Directors declared an ordinary net investment income dividend of \$0.05167 per common share, totaling \$1,236,584 and payable on February 15, 2008, to common shareholders of record as of January 31, 2008.

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Report of Independent Auditors

To the Board of Directors and Stockholders of
Tax-Free Puerto Rico Fund II, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Tax-Free Puerto Rico Fund II, Inc. ("the Fund") at November 30, 2007, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 11, 2008

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2010
Stamp 2287637 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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INVESTMENT ADVISER

UBS Asset Managers of Puerto Rico,
a division of UBS Trust Company of Puerto Rico
250 Muñoz Rivera Avenue, 10th Floor
San Juan, Puerto Rico 00918

ADMINISTRATOR, TRANSFER AGENT, AND CUSTODIAN

UBS Trust Company of Puerto Rico
250 Muñoz Rivera Avenue, 10th Floor
San Juan, Puerto Rico 00918

U.S. LEGAL COUNSEL

Sidley, Austin, Brown & Wood, LLP
787 Seventh Avenue
New York, New York 10019

PUERTO RICO LEGAL COUNSEL

AXTMAYER, P.S.C.
Torre de la Reina Condominium
450 Constitution Avenue, Ground Floor
San Juan, Puerto Rico 00901

INDEPENDENT AUDITORS

Pricewaterhouse Coopers, LLP
BBVA Tower, 9th Floor
254 Muñoz Rivera Avenue
San Juan, Puerto Rico 00918

DIRECTORS AND OFFICERS

Miguel A. Ferrer
President, Chairman of the Board and Director

Carlos V. Ubiñas
Director, Vice Chairman of the Board and Executive Vice President

Stephen C. Roussin
Director

Mario S. Belaval
Director

Agustín Cabrer-Roig
Director

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Director

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Director

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Director

Vicente J. León
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First Vice President

Javier Rodríguez
Assistant Vice President and Assistant Treasurer

Seth Ruderman
Secretary

Remember that:

- Mutual Fund's units are not bank deposits or FDIC insured.
- Mutual Fund's units are not obligations of or guaranteed by UBS Financial Services Incorporated of Puerto Rico or any of its affiliates.
- Mutual Fund's units are subject to investment risks, including possible loss of the principal amount invested.

