



UBS Asset Managers of Puerto Rico Funds Quarterly Review

Second Quarter 2007



UBS Financial Services Incorporated of Puerto Rico

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Puerto Rico Investors Tax-Free Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 1995, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1996, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. The Fund is required, pursuant to Article 6(e) of the Puerto Rico Investment Companies Act and a ruling issued by the Office of the Commissioner of Financial Institutions (the "OCFI"), to invest at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). In satisfaction of this requirement, and in seeking to achieve the Fund's objective, the Fund invests at least 70% of its total assets in Puerto Rico Obligations and may invest up to 30% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	January 1995
Market Price	9.47
Net Asset Value	7.89
Premium/Discount	120.03%
Total Net Assets	\$88.16 million
Shares Outstanding	11,177,912

Leverage	\$87.73 million
% Leverage	50%
Hedge Notional ²	\$66.11 million
Leverage Cost	4.14%
Expense Ratio	1.45%

Weighted Average Coupon	5.86%
Average Maturity	19.31 years
Average Duration	9.71 years
Effective Duration	4.68 years
Undistributed Income	\$942,710

Pricing and Distribution History¹

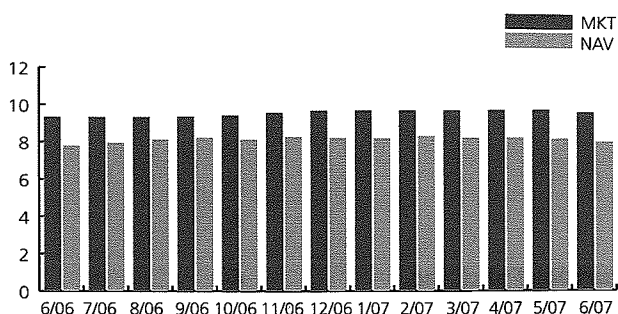
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.30/9.62
YTD NAV Change	-0.27
YTD Market Price Change	-0.15

IPO Yield ³	5.45%
Market Yield ³	5.76%
Last Dividend Paid	\$0.0454
Last 12-month Dividend	\$0.5500

Portfolio Summary*¹

PR Obligations	60.36%
PR Issuers	51.63%
Mortgage-Backed Securities	6.25%
Preferred Stocks	2.48%
US Obligations	39.64%
US Agencies	39.64%

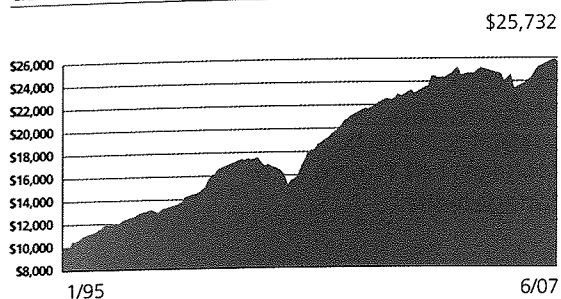
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	0.02%	1.83%
1 Year	8.70%	9.06%
3 Years	3.69%	2.81%
5 Years	3.91%	3.73%
Life	6.83%	7.91%

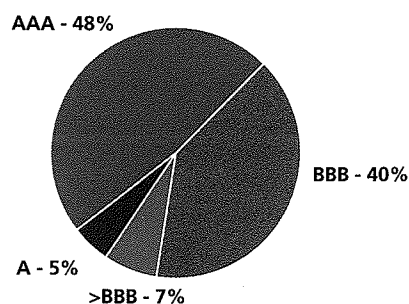
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions, and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. Portfolio transactions between the Fund and its affiliates, including UBS Financial Services Incorporated of Puerto Rico and Popular Securities, Inc., take place. Such transactions are conducted in accordance with procedures adopted by the Fund's

Credit Quality¹



Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the OCFI to deviate from the investment requirement in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Investors Tax-Free Fund Inc. II

Leslie Highley, Jr., Portfolio Manager since 1995, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1996, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. The Fund is required, pursuant to Article 6(e) of the Puerto Rico Investment Companies Act and a ruling issued by the Office of the Commissioner of Financial Institutions (the "OCFI"), to invest at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). In satisfaction of this requirement, and in seeking to achieve the Fund's objective, the Fund invests at least 70% of its total assets in Puerto Rico Obligations and may invest up to 30% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	May 1995
Market Price	9.47
Net Asset Value	7.77
Premium/Discount	121.88%
Total Net Assets	\$92.92 million
Shares Outstanding	11,952,272

Leverage	\$97.29 million
% Leverage ²	51%
Hedge Notional ³	\$73.78 million
Leverage Cost	3.98%
Expense Ratio	1.41%

Weighted Average Coupon	5.86%
Average Maturity	18.00 years
Average Duration	8.99 years
Effective Duration	4.03 years
Undistributed Income	\$811,945

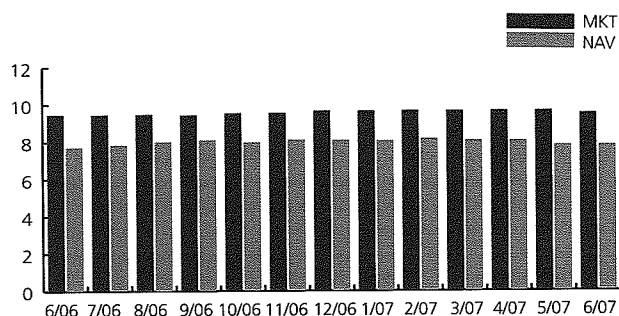
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.42/9.62
YTD NAV Change	-0.27
YTD Market Price Change	-0.15
IPO Yield ⁴	5.45%
Market Yield ⁴	5.76%
Last Dividend Paid	\$0.0454
Last 12-month Dividend	\$0.5517

Portfolio Summary*¹

PR Obligations	64.42%
PR Issuers	57.42%
Mortgage-Backed Securities	4.74%
Preferred Stocks	2.26%
US Obligations	35.58%
US Agencies	35.58%

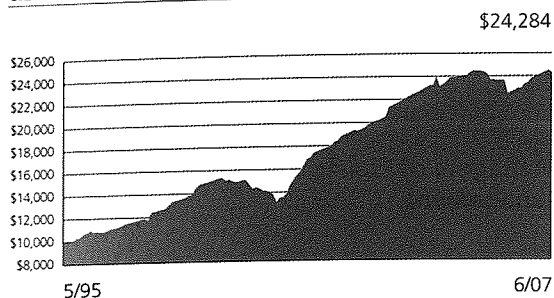
Historical Market Price and NAV



Performance⁵

	NAV Return	Market Return
YTD	0.02%	1.89%
1 Year	8.15%	7.29%
3 Years	3.40%	1.51%
5 Years	3.96%	4.93%
Life	6.43%	7.67%

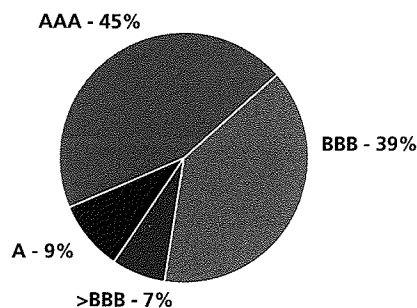
Growth of a \$10,000 Investment as of June 30, 2007⁵



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions, and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. Portfolio transactions between the Fund and its affiliates, including UBS Financial Services Incorporated of Puerto Rico and Popular Securities, Inc., take place. Such transactions are conducted in accordance with procedures adopted by the Fund's

Credit Quality¹



Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the OCFI to deviate from the investment requirement in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
 2. The Fund's leverage ratio fell below the 50% requirement as of the next NAV calculation on July 5, 2007.
 3. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
 4. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
 5. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Investors Tax-Free Fund III, Inc.

Leslie Highley, Jr., Portfolio Manager since 1995, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1996, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.*

The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	September 1995
Market Price	9.62
Net Asset Value	7.89
Premium/Discount	121.93%
Total Net Assets	\$110.94 million
Shares Outstanding	14,057,046

Leverage	\$114.29 million
% Leverage ²	51%
Hedge Notional ³	\$83.47 million
Leverage Cost	3.99%
Expense Ratio	1.37%

Weighted Average Coupon	5.91%
Average Maturity	17.41 years
Average Duration	8.13 years
Effective Duration	4.16 years
Undistributed Income	\$1,363,903

Pricing and Distribution History¹

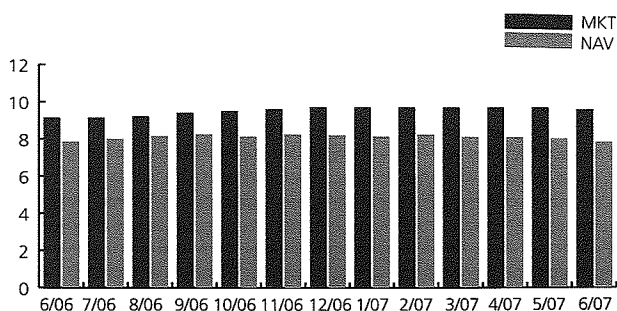
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.14/9.72
YTD NAV Change	-0.31
YTD Market Price Change	-0.10

IPO Yield ⁴	5.60%
Market Yield ⁴	5.82%
Last Dividend Paid	\$0.0467
Last 12-month Dividend	\$0.5621

Portfolio Summary*¹

PR Obligations	61.86%
PR Issuers	49.86%
Mortgage-Backed Securities	9.23%
Preferred Stocks	2.77%
US Obligations	38.14%
US Agencies	38.14%

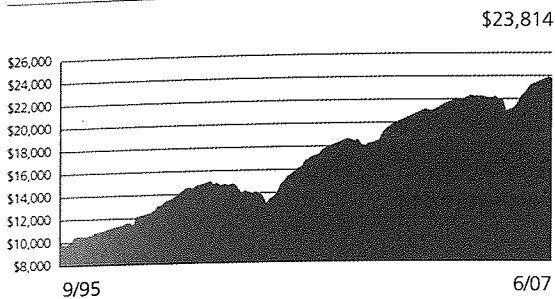
Historical Market Price and NAV



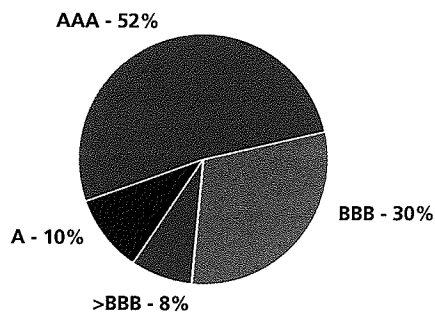
Performance⁵

	NAV Return	Market Return
YTD	-0.38%	2.47%
1 Year	7.72%	12.86%
3 Years	4.38%	3.97%
5 Years	4.14%	5.32%
Life	6.47%	7.72%

Growth of a \$10,000 Investment as of June 30, 2007⁵



Credit Quality¹



Special Considerations

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Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund's leverage ratio fell below the 50% requirement as of the next NAV calculation on July 5, 2007.
3. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
4. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
5. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Investors Tax-Free Fund Inc., IV

Leslie Highley, Jr., Portfolio Manager since 1996, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1996, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	February 1996
Market Price	9.93
Net Asset Value	8.04
Premium/Discount	123.51%
Total Net Assets	\$94.02 million
Shares Outstanding	11,692,670

Leverage	93.58 million
% Leverage	50%
Hedge Notional ²	\$70.52 million
Leverage Cost	3.98%
Expense Ratio	1.35%

Weighted Average Coupon	5.96%
Average Maturity	17.44 years
Average Duration	8.24 years
Effective Duration	4.12 years
Undistributed Income	\$1,115,421

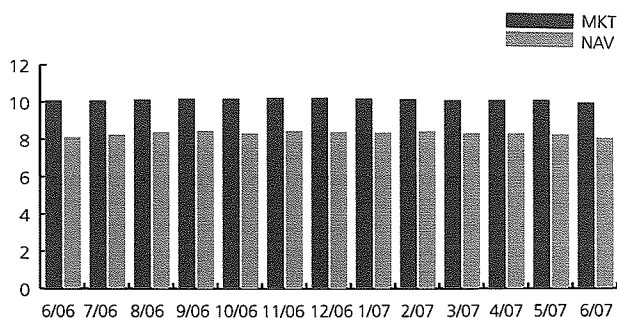
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.93/10.23
YTD NAV Change	-0.34
YTD Market Price Change	-0.30
IPO Yield ³	5.70%
Market Yield ³	5.74%
Last Dividend Paid	\$0.0475
Last 12-month Dividend	\$0.5933

Portfolio Summary*¹

PR Obligations	50.13%
PR Issuers	38.30%
Mortgage-Backed Securities	9.21%
Preferred Stocks	2.62%
US Obligations	49.87%
US Agencies	49.87%

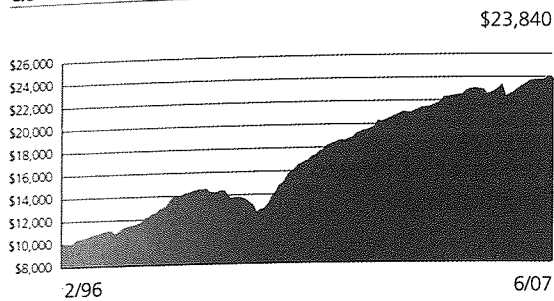
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	-0.62%	0.55%
1 Year	6.50%	5.83%
3 Years	3.27%	3.64%
5 Years	4.12%	5.32%
Life	6.61%	8.03%

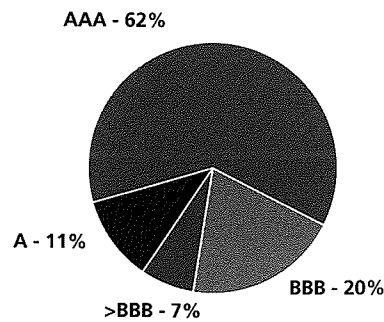
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions, and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. Portfolio transactions between the Fund and its affiliates, including UBS Financial Services Incorporated of Puerto Rico and Popular Securities, Inc., take place. Such transactions are conducted in accordance with procedures adopted by the Fund's

Credit Quality¹



Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Investors Tax-Free Fund V, Inc.

Leslie Highley, Jr., Portfolio Manager since 1997, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1997, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	February 1997	Leverage	\$144.56 million	Weighted Average Coupon	5.74%
Market Price	9.83	% Leverage	50%	Average Maturity	17.14 years
Net Asset Value	7.99	Hedge Notional ²	\$105.76 million	Average Duration	7.98 years
Premium/Discount	123.03%	Leverage Cost	3.96%	Effective Duration	4.66 years
Total Net Assets	\$141.22 million	Expense Ratio	1.35%	Undistributed Income	\$1,826,603
Shares Outstanding	17,678,895				

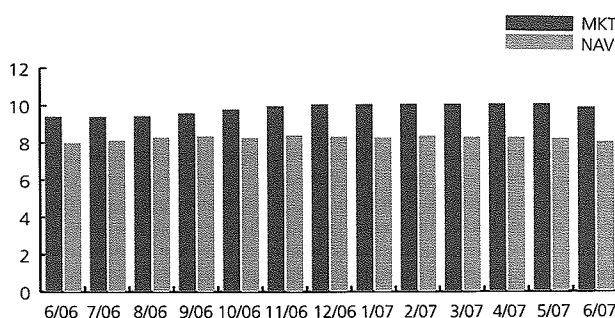
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.38/10.03
YTD NAV Change	-0.31
YTD Market Price Change	-0.20
IPO Yield ³	5.70%
Market Yield ³	5.80%
Last Dividend Paid	\$0.0475
Last 12-month Dividend	\$0.5779

Portfolio Summary*¹

PR Obligations	64.02%
PR Issuers	51.99%
Mortgage-Backed Securities	9.70%
Preferred Stocks	2.33%
US Obligations	35.98%
US Agencies	35.98%

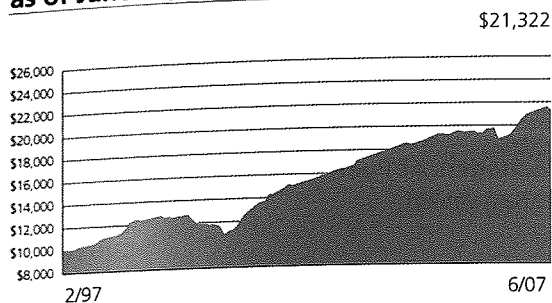
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	-0.28%	1.53%
1 Year	7.70%	12.38%
3 Years	4.99%	4.53%
5 Years	4.35%	6.52%
Life	6.17%	7.73%

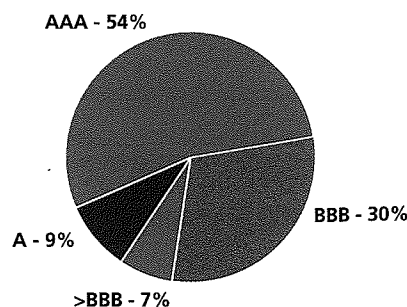
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions, and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. Portfolio transactions between the Fund and its affiliates, including UBS Financial Services Incorporated of Puerto Rico and Popular Securities, Inc., take place. Such transactions are conducted in accordance with procedures adopted by the Fund's

Credit Quality¹



Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Investors Tax-Free Fund VI, Inc.

Leslie Highley, Jr., Portfolio Manager since 1999, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1999, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	July 1999
Market Price	9.98
Net Asset Value	8.49
Premium/Discount	117.55%
Total Net Assets	\$194.88 million
Shares Outstanding	22,945,166

Leverage	\$195.06 million
% Leverage	50%
Hedge Notional ²	\$151.27 million
Leverage Cost	4.03%
Expense Ratio	1.36%

Weighted Average Coupon	5.04%
Average Maturity	15.02 years
Average Duration	8.22 years
Effective Duration	4.31 years
Undistributed Income	\$2,654,992

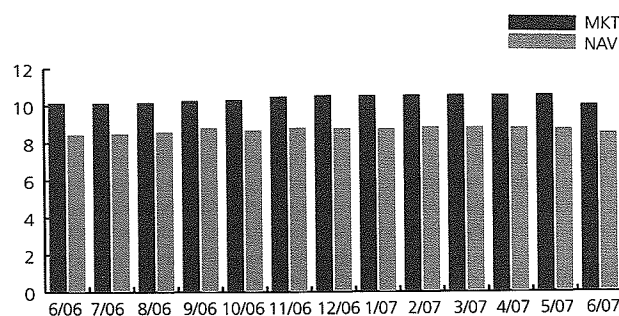
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.98/10.53
YTD NAV Change	-0.29
YTD Market Price Change	-0.55
IPO Yield ³	6.10%
Market Yield ³	6.11%
Last Dividend Paid	\$0.0508
Last 12-month Dividend	\$0.6227

Portfolio Summary*¹

PR Obligations	64.41%
PR Issuers	59.22%
Mortgage-Backed Securities	2.99%
Preferred Stocks	2.20%
US Obligations	35.59%
US Agencies	35.59%

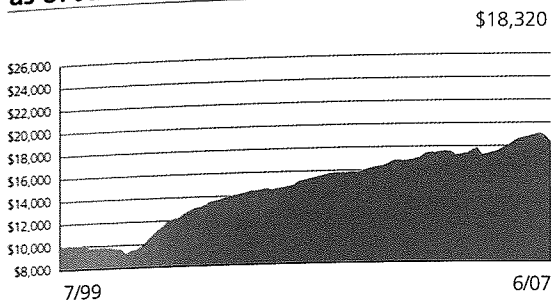
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	0.19%	-1.85%
1 Year	7.80%	5.46%
3 Years	5.30%	4.55%
5 Years	4.88%	5.26%
Life	6.72%	8.04%

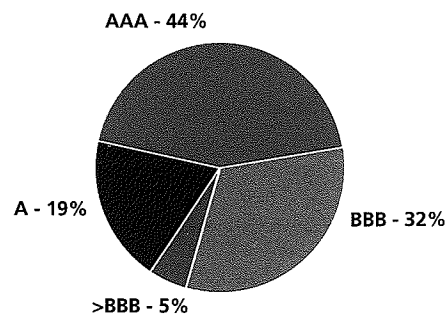
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

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Credit Quality¹



Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

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- As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
- The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
- Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
- As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Tax-Free Target Maturity Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 1996, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1996, Popular Asset Management

Investment Objectives and Policies

(i) High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital, and (ii) the distribution to its holders of common stock of an amount at least equal in the aggregate to the initial public offering price of \$10 per Share, during the period commencing January 1, 2007 and ending on or by December 31, 2022. In seeking to achieve its investment objectives, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of debt securities and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	August 1996
Market Price	9.32
Net Asset Value	8.79
Premium/Discount	106.03%
Total Net Assets	\$84.47 million
Shares Outstanding	9,610,000

Leverage	\$72.38 million
% Leverage	46%
Hedge Notional ²	\$15.00 million
Leverage Cost	4.84%
Expense Ratio	0.52%

Weighted Average Coupon	4.93%
Average Maturity	10.17 years
Average Duration	5.44 years
Effective Duration	4.02 years
Undistributed Income	\$5,524,717

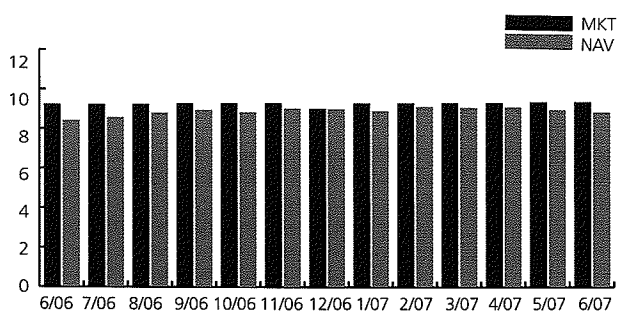
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.22/9.32
YTD NAV Change	-0.18
YTD Market Price Change	0.05
IPO Yield ³	4.00%
Market Yield ³	4.29%
Last Dividend Paid	\$0.0333
Last 12-month Dividend	\$0.4000

Portfolio Summary*¹

PR Obligations	47.46%
PR Issuers	23.98%
Mortgage-Backed Securities	23.48%
US Obligations	52.54%
US Agencies	52.54%

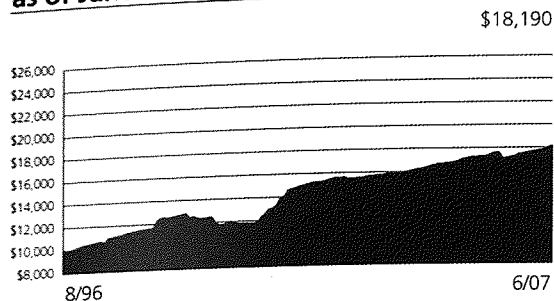
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	0.21%	2.87%
1 Year	9.46%	5.79%
3 Years	4.44%	3.84%
5 Years	3.71%	3.40%
Life	5.64%	5.68%

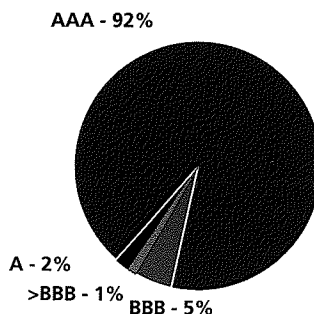
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

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Credit Quality¹



Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value total, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Tax-Free Target Maturity Fund II, Inc.

Leslie Highley, Jr., Portfolio Manager since 1997, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1997, Popular Asset Management

Investment Objectives and Policies

(i) High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital, and (ii) the distribution to its holders of common stock of an amount at least equal in the aggregate to the initial public offering price of \$10 per Share, during the period commencing January 1, 2008 and ending on or by December 31, 2028. In seeking to achieve its investment objectives, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of debt securities and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	July 1997
Market Price	8.96
Net Asset Value	8.47
Premium/Discount	105.79%
Total Net Assets	\$63.85 million
Shares Outstanding	7,535,000

Leverage	\$62.16 million
% Leverage	49%
Hedge Notional ²	\$15.00 million
Leverage Cost	4.82%
Expense Ratio	1.10%

Weighted Average Coupon	5.45%
Average Maturity	14.01 years
Average Duration	7.34 years
Effective Duration	4.23 years
Undistributed Income	\$3,676,038

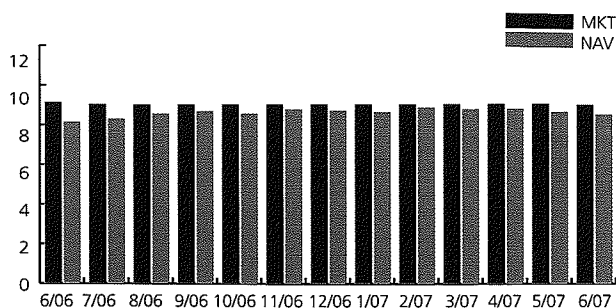
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.96/9.02
YTD NAV Change	-0.23
YTD Market Price Change	-0.05
IPO Yield ³	3.80%
Market Yield ³	4.24%
Last Dividend Paid	\$0.0317
Last 12-month Dividend	\$0.3758

Portfolio Summary*¹

PR Obligations	51.94%
PR Issuers	26.48%
Mortgage-Backed Securities	25.46%
US Obligations	48.06%
US Agencies	48.06%

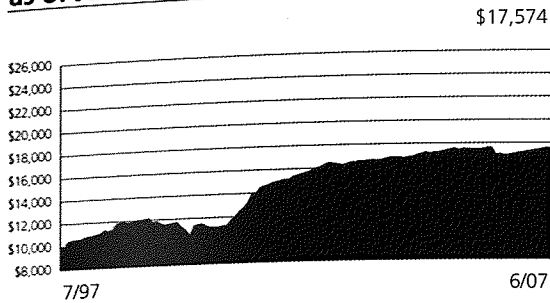
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	-0.50%	1.63%
1 Year	8.69%	2.68%
3 Years	4.71%	1.42%
5 Years	4.12%	2.42%
Life	5.74%	5.85%

Growth of a \$10,000 Investment as of June 30, 2007⁴

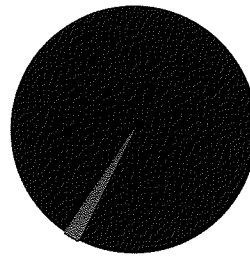


Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions, and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. Portfolio transactions between the Fund and its affiliates, including UBS Financial Services Incorporated of Puerto Rico and Popular Securities, Inc., take place. Such transactions are conducted in accordance with procedures adopted by the Fund's

Credit Quality¹

AAA - 98%



>BBB - 2%

Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates, or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Puerto Rico Investors Bond Fund I

Leslie Highley, Jr., Portfolio Manager since 1999, UBS Asset Managers of Puerto Rico
Javier Rubio, Portfolio Manager since 1999, Popular Asset Management

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital. The Fund is required, pursuant to Article 6(e) of the Puerto Rico Investment Companies Act and a ruling issued by the Office of the Commissioner of Financial Institutions (the "OCFI"), to invest at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). In satisfaction of this requirement, and in seeking to achieve the Fund's objective, the Fund invests at least 70% of its total assets in Puerto Rico Obligations and may invest up to 30% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	January 1999
Market Price	9.57
Net Asset Value	7.62
Premium/Discount	125.59%
Total Net Assets	\$157.54 million
Shares Outstanding	20,673,796

Leverage	\$130.71 million
% Leverage	45%
Hedge Notional ²	\$127.36 million
Leverage Cost	4.05%
Expense Ratio	1.08%

Weighted Average Coupon	6.25%
Average Maturity	19.88 years
Average Duration	8.05 years
Effective Duration	4.05 years
Undistributed Income	\$2,049,094

Pricing and Distribution History¹

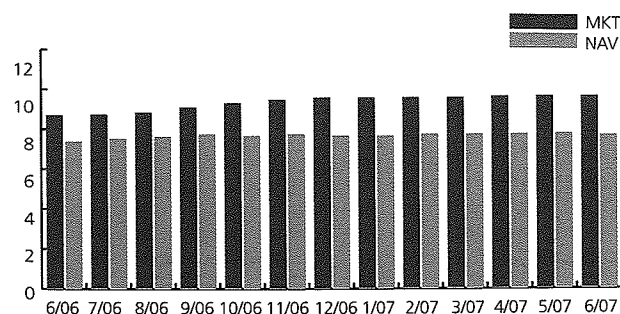
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.72/9.57
YTD NAV Change	0.01
YTD Market Price Change	0.05

IPO Yield ³	5.55%
Market Yield ³	5.80%
Last Dividend Paid	\$0.0463
Last 12-month Dividend	\$0.5550

Portfolio Summary*¹

PR Obligations	61.56%
PR Issuers	44.53%
Mortgage-Backed Securities	13.73%
Preferred Stocks	3.30%
US Obligations	38.44%
US Agencies	38.44%

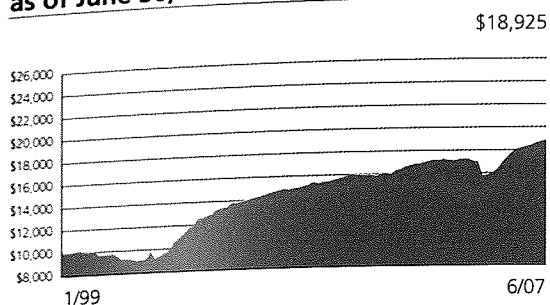
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	3.84%	4.24%
1 Year	11.59%	18.98%
3 Years	6.52%	5.62%
5 Years	5.07%	5.74%
Life	5.59%	7.87%

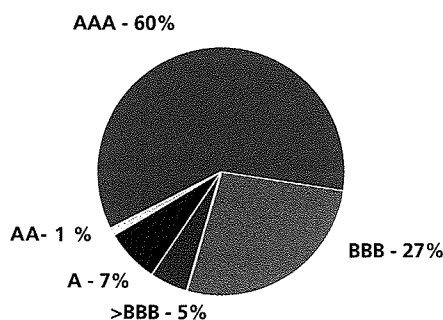
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions, and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. The Fund should not be viewed as a vehicle for trading purposes. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's unitholders, including the possibility of higher volatility of both the net asset value and the market value of the Fund's units of beneficial interest ("Units"). The Fund will engage in portfolio transactions with its affiliates, including UBS Financial Services Incorporated of Puerto Rico and Popular Securities, Inc. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort

Credit Quality¹



to address potential conflicts of interests. It is important to note that the Units may trade at either a discount or premium to net asset value. The Units may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico.

The Units are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates or Banco Popular de Puerto Rico or its affiliates. Securities issued by the Fund are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the Units will fluctuate and may be worth more or less than the original amount invested. Investments in the Units are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since August 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
 2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
 3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Puerto Rico Investors Family of Funds at telephone number 787-751-5452.
 4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Puerto Rico Investors Family of Funds at 787-751-5452.

Tax-Free Puerto Rico Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2001, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

High level of current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, as is consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 150 common shares in the open market with an NAV of \$1,277 at a cost of \$1,277.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	February 2001	Leverage	\$118.39 million	Weighted Average Coupon	5.06%
Market Price	9.77	% Leverage	45%	Average Maturity	13.88 years
Net Asset Value	8.55	Hedge Notional ²	\$52.97 million	Average Duration	7.54 years
Premium/Discount	114.27%	Leverage Cost	4.17%	Effective Duration	5.04 years
Total Net Assets	\$141.49 million	Expense Ratio	1.36%	Undistributed Income	\$1,450,238
Shares Outstanding	16,542,236				

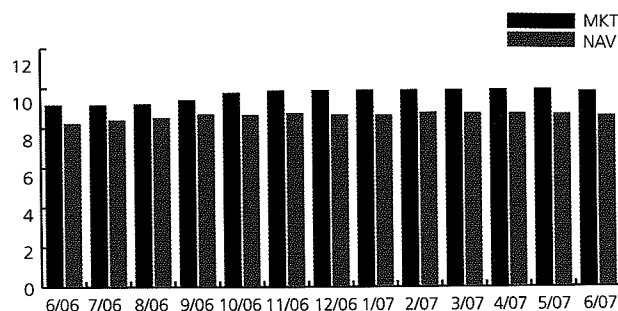
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.17/9.88
YTD NAV Change	-0.11
YTD Market Price Change	-0.11
IPO Yield ³	5.80%
Market Yield ³	5.94%
Last Dividend Paid	\$0.0483
Last 12-month Dividend	\$0.5800

Portfolio Summary*¹

PR Obligations	62.64%
PR Issuers	52.06%
Mortgage-Backed Securities	8.75%
Preferred Stocks	1.83%
US Obligations	37.36%
US Agencies	35.63%
US Issuers	1.73%

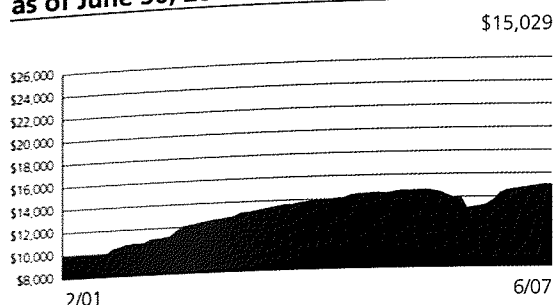
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	2.11%	2.32%
1 Year	10.85%	14.02%
3 Years	5.70%	2.44%
5 Years	5.93%	6.00%
Life	5.22%	6.64%

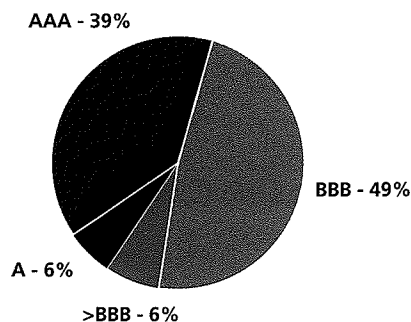
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address

Credit Quality¹



potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since November 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Tax-Free Puerto Rico Fund II, Inc.

Leslie Highley, Jr., Portfolio Manager since 2002, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, as is consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund had not repurchased any common shares in the open market.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

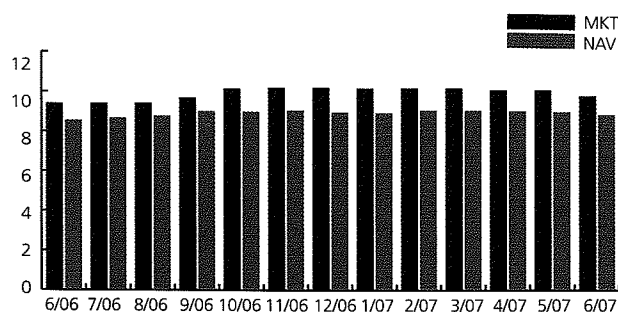
Commencement	January 2002	Leverage	\$189.66 million	Weighted Average Coupon	6.17%
Market Price	9.72	% Leverage	47%	Average Maturity	17.62 years
Net Asset Value	8.79	Hedge Notional ²	\$80.50 million	Average Duration	7.82 years
Premium/Discount	110.58%	Leverage Cost	4.67%	Effective Duration	5.30 years
Total Net Assets	\$207.17 million	Expense Ratio	1.32%	Undistributed Income	\$2,318,687
Shares Outstanding	23,574,266				

Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.40/10.18
YTD NAV Change	-0.14
YTD Market Price Change	-0.46

IPO Yield ³	5.85%
Market Yield ³	6.02%
Last Dividend Paid	\$0.0488
Last 12-month Dividend	\$0.5979

Historical Market Price and NAV



Portfolio Summary*¹

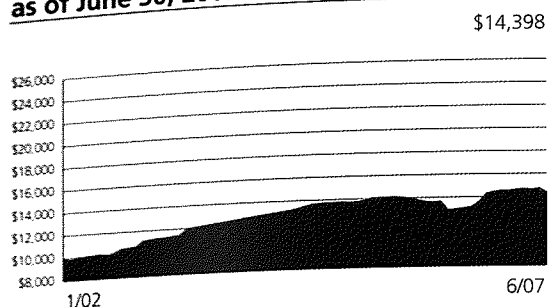
PR Obligations	64.17%
PR Issuers	57.61%
Mortgage-Backed Securities	5.58%
Preferred Stocks	0.98%

US Obligations	35.83%
US Agencies	35.83%

Performance⁴

	NAV Return	Market Return
YTD	1.74%	-1.26%
1 Year	10.06%	10.57%
3 Years	5.10%	3.24%
5 Years	5.77%	7.13%
Life	5.81%	6.96%

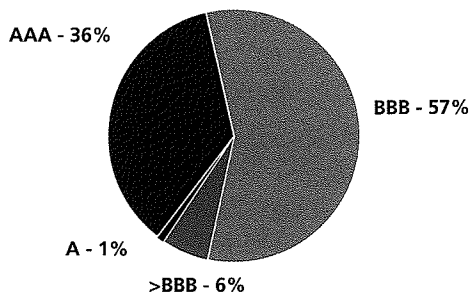
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address

Credit Quality¹



potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since November 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Tax-Free Puerto Rico Target Maturity Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2001, UBS Asset Managers of Puerto Rico

Investment Objectives and Policies

(i) Current income that, for Puerto Rico residents, is exempt from Federal and Puerto Rico income tax, consistent with the preservation of capital, and (ii) distribution to shareholders of an amount at least equal in the aggregate to the initial public offering price of \$10 per Share, during the period commencing January 1, 2012 and ending on or by December 31, 2031. In seeking to achieve its investment objectives, the Fund invests at least 67% of its total assets in Puerto Rico Obligations (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities. A fundamental policy of the Fund is not to purchase securities with a maturity date subsequent to December 31, 2031.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 11,800 common shares in the open market with an NAV of \$105,846 at a cost of \$105,728.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	August 2001	Leverage	\$256.09 million	Weighted Average Coupon	6.15%
Market Price	9.42	% Leverage	47%	Average Maturity	17.18 years
Net Asset Value	8.87	Hedge Notional ²	\$95.00 million	Average Duration	6.81 years
Premium/Discount	106.20%	Leverage Cost	4.63%	Effective Duration	4.79 years
Total Net Assets	\$278.98 million	Expense Ratio	1.36%	Undistributed Income	\$6,779,990
Shares Outstanding	31,459,255				

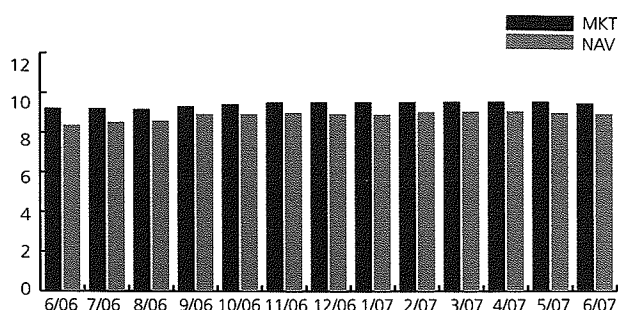
Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.18/9.52
YTD NAV Change	-0.15
YTD Market Price Change	-0.10
IPO Yield ³	5.30%
Market Yield ³	5.63%
Last Dividend Paid	\$0.0442
Last 12-month Dividend	\$0.5417

Portfolio Summary*¹

PR Obligations	63.52%
PR Issuers	56.62%
Mortgage-Backed Securities	6.90%
US Obligations	36.48%
US Agencies	34.68%
US Issuers	1.80%

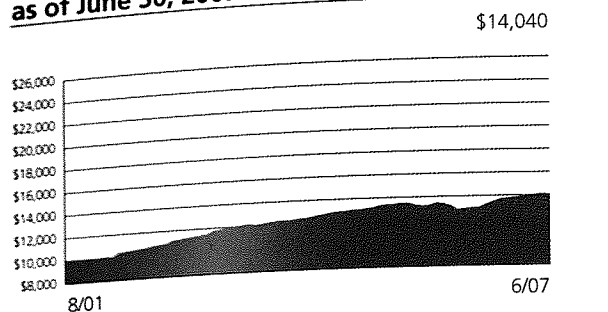
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	2.48%	1.97%
1 Year	12.78%	8.66%
3 Years	5.60%	4.14%
5 Years	6.33%	5.93%
Life	5.77%	5.99%

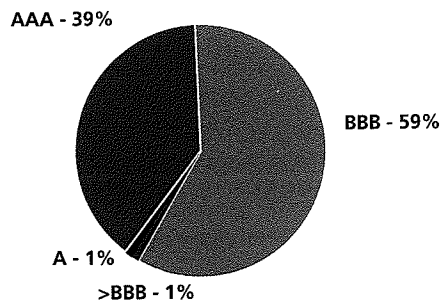
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated

Credit Quality¹



of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since November 2005, the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

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- The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
- Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
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Puerto Rico AAA Portfolio Target Maturity Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2002, UBS Asset Managers of Puerto Rico

Investment Objectives and Policies

(i) Current income, as is, consistent with the preservation of capital and (ii) distribution to shareholders of an amount at least equal in the aggregate to the initial public offering price of \$10 per Share during the period commencing July 31, 2013 and ending on or by December 31, 2032. In seeking to achieve its investment objectives, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities. A fundamental policy of the Fund is not to purchase securities with a maturity date subsequent to December 31, 2032. For purposes of satisfying this requirement, the Fund considers the maturity of certain mortgage-backed and asset-backed securities to be their expected maturity (and not their stated maturity) giving effect, for example, to expected prepayments. Similarly, and as reflected in the Schedule of Investments of the Fund's Annual Report, the Fund currently holds bonds with maturity dates beyond December 31, 2032. These bonds were purchased based on certain accelerated prepayment provisions incorporated into the structure of such bonds which, if materialized, would result in the principal amount of the bonds being fully paid much earlier than their maturity date and December 31, 2032. It should be noted that, although the Fund's investment adviser believes that such prepayments and acceleration will occur, they may in fact not take place, in which case the Fund would have to dispose of those securities at a gain or loss prior to December 31, 2032.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 93,071 common shares in the open market with an NAV of \$814,092 at a cost of \$813,071.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	July 2002
Market Price	8.81
Net Asset Value	8.61
Premium/Discount	102.32%
Total Net Assets	\$472.97 million
Shares Outstanding	54,907,382

Leverage	\$388.58 million
% Leverage	45%
Hedge Notional ²	\$142.66 million
Leverage Cost	4.65%
Expense Ratio	1.27%

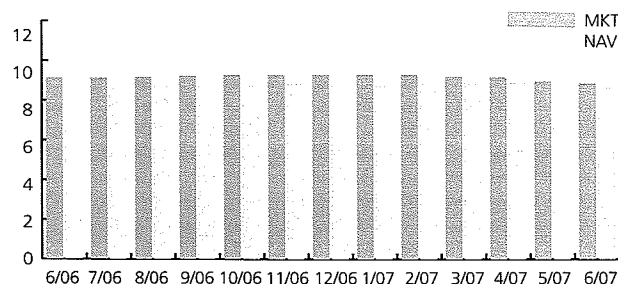
Weighted Average Coupon	5.57%
Average Maturity	15.99 years
Average Duration	9.16 years
Effective Duration	5.79 years
Undistributed Income	\$5,572,144

Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.81/9.27
YTD NAV Change	-0.13
YTD Market Price Change	-0.46

IPO Yield ³	4.75%
Market Yield ³	5.39%
Last Dividend Paid	\$0.0396
Last 12-month Dividend	\$0.4813

Historical Market Price and NAV



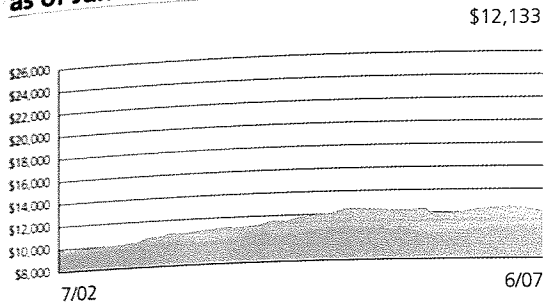
Portfolio Summary*¹

PR Obligations	59.35%
PR Issuers	29.92%
Mortgage-Backed Securities	29.43%
US Obligations	40.65%
US Agencies	40.65%

Performance⁴

	NAV Return	Market Return
YTD	1.24%	-2.33%
1 Year	6.90%	2.07%
3 Years	4.27%	2.13%
5 Years	N/A	N/A
Life	4.64%	4.08%

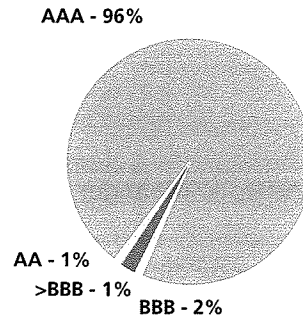
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated

Credit Quality¹



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Puerto Rico AAA Portfolio Bond Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2003, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income, as is consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies, and instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 98,940 common shares in the open market with an NAV of \$824,986 at a cost of \$822,372.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	January 2003
Market Price	8.60
Net Asset Value	8.25
Premium/Discount	104.24%
Total Net Assets	\$419.71 million
Shares Outstanding	50,899,229

Leverage	\$312.62 million
% Leverage	43%
Hedge Notional ²	\$129.88 million
Leverage Cost	4.48%
Expense Ratio	1.21%

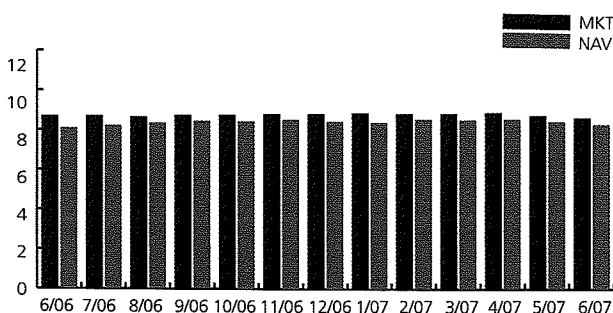
Weighted Average Coupon	5.78%
Average Maturity	14.08 years
Average Duration	8.94 years
Effective Duration	5.31 years
Undistributed Income	\$3,059,993

Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.60/8.86
YTD NAV Change	-0.18
YTD Market Price Change	-0.21

IPO Yield ³	4.90%
Market Yield ³	5.70%
Last Dividend Paid	\$0.0408
Last 12-month Dividend	\$0.4963

Historical Market Price and NAV



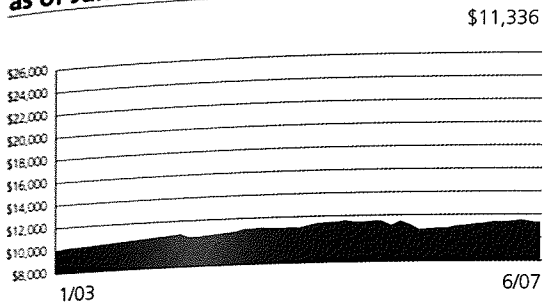
Portfolio Summary*¹

PR Obligations	57.16%
PR Issuers	16.43%
Mortgage-Backed Securities	38.44%
Preferred Stocks	2.29%
US Obligations	42.84%
US Agencies	42.84%

Performance⁴

	NAV Return	Market Return
YTD	0.78%	0.58%
1 Year	8.05%	4.74%
3 Years	4.11%	2.03%
5 Years	N/A	N/A
Life	3.33%	2.88%

Growth of a \$10,000 Investment as of June 30, 2007⁴

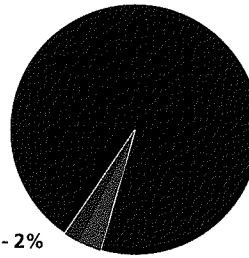


Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address

Credit Quality¹

AAA - 95%



>BBB - 2%

BBB - 3%

potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

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 4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico AAA Portfolio Bond Fund II, Inc.

Leslie Highley, Jr., Portfolio Manager since 2005, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income, as is consistent with the preservation of capital. In seeking to achieve this objective, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies, and instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 216,951 common shares in the open market with an NAV of \$2,035,384 at a cost of \$2,034,020.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	August 2005	Leverage	\$10.85 million	Weighted Average Coupon	5.36%
Market Price	8.71	% Leverage	23%	Average Maturity	17.45 years
Net Asset Value	9.25	Hedge Notional ²	\$10.92 million	Average Duration	7.23 years
Premium/Discount	94.16%	Leverage Cost	4.91%	Effective Duration	4.54 years
Total Net Assets	\$36.03 million	Expense Ratio	1.32%	Undistributed Income	\$515,734
Shares Outstanding	3,895,505				

Pricing and Distribution History¹

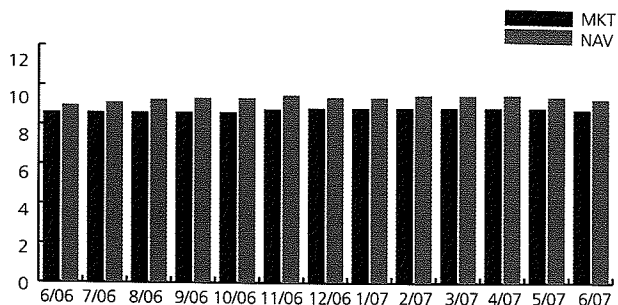
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.61/8.81
YTD NAV Change	-0.11
YTD Market Price Change	-0.10

IPO Yield ³	4.95%
Market Yield ³	5.68%
Last Dividend Paid	\$0.0413
Last 12-month Dividend	\$0.4929

Portfolio Summary*¹

PR Obligations	54.92%
PR Issuers	8.47%
Mortgage-Backed Securities	46.45%
US Obligations	45.08%
US Agencies	45.08%

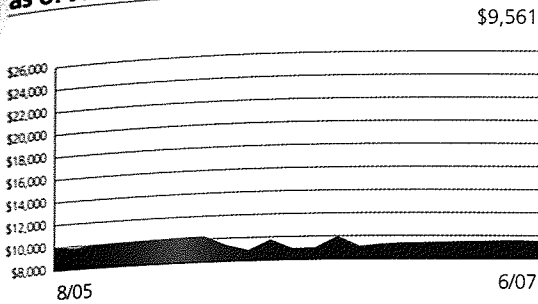
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	1.47%	1.51%
1 Year	8.83%	6.59%
3 Years	N/A	N/A
5 Years	N/A	N/A
Life	3.55%	-2.42%

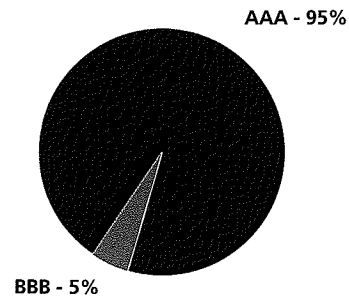
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address

Credit Quality¹



potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency or instrumentality of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since January 2007 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico GNMA & U.S. Government Target Maturity Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2003, UBS Asset Managers of Puerto Rico
Mari to Domingo, Portfolio Manager since 2007, Doral Securities

Investment Objectives and Policies

(i) Current income, consistent with the preservation of capital, and (ii) distribution to its holders of common stock of an amount at least equal in the aggregate to the initial public offering price of \$10 per Share during the period commencing May 16, 2013 and ending on or by December 31, 2043. In seeking to achieve its investment objectives, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in, among other things, taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 156,350 common shares in the open market with an NAV of \$1,390,264 at a cost of \$1,388,388.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

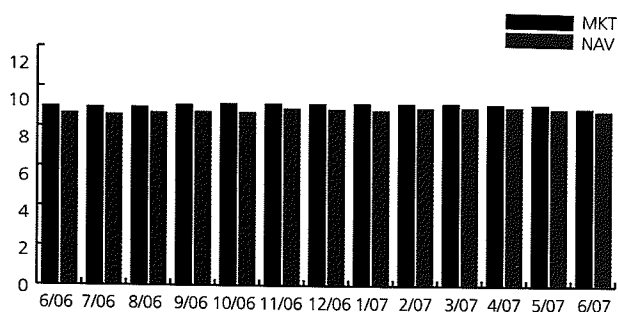
Commencement	May 2003	Leverage	\$163.44 million	Weighted Average Coupon	5.98%
Market Price	8.91	% Leverage	47%	Average Maturity	12.12 years
Net Asset Value	8.79	Hedge Notional ²	\$64.69 million	Average Duration	7.62 years
Premium/Discount	101.37%	Leverage Cost	4.62%	Effective Duration	4.82 years
Total Net Assets	\$178.53 million	Expense Ratio	1.34%	Undistributed Income	\$5,671,523
Shares Outstanding	20,301,491				

Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.91/9.17
YTD NAV Change	-0.10
YTD Market Price Change	-0.26

IPO Yield ³	4.40%
Market Yield ³	4.94%
Last Dividend Paid	\$0.0367
Last 12-month Dividend	\$0.4442

Historical Market Price and NAV



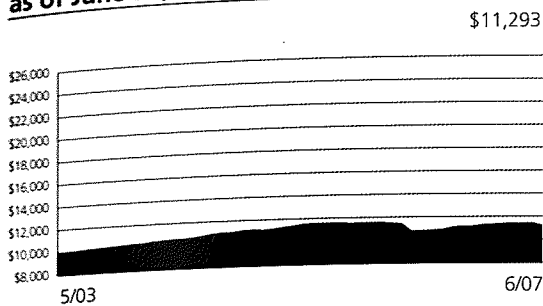
Portfolio Summary*¹

PR Obligations	65.42%
PR Issuers	1.31%
Mortgage-Backed Securities	64.11%
US Obligations	34.58%
US Agencies	34.58%

Performance⁴

	NAV Return	Market Return
YTD	1.35%	-0.35%
1 Year	6.25%	3.82%
3 Years	4.19%	1.78%
5 Years	N/A	N/A
Life	3.93%	3.09%

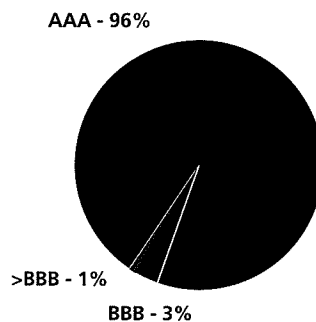
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio

Credit Quality¹



transactions with UBS Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

^{*} Subject to certain requirements in the Fund's Prospectus. Since February 2006 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

- As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
- The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
- Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
- As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico Fixed Income Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2003, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income, consistent with the preservation of capital. In seeking to achieve its investment objective, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, mortgage-backed and asset-backed securities, corporate obligations and preferred stock, and municipal securities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 20,617 common shares in the open market with an NAV of \$188,707 at a cost of \$188,439.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	July 2003	Leverage	\$327.59 million	Weighted Average Coupon	5.95%
Market Price	9.37	% Leverage	46%	Average Maturity	19.20 years
Net Asset Value	8.89	Hedge Notional ²	\$121.45 million	Average Duration	10.70 years
Premium/Discount	105.40%	Leverage Cost	4.58%	Effective Duration	6.10 years
Total Net Assets	\$394.31 million	Expense Ratio	1.29%	Undistributed Income	\$2,279,103
Shares Outstanding	44,377,399				

Pricing and Distribution History¹

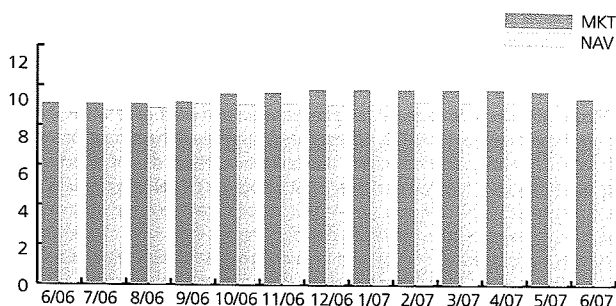
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.12/9.83
YTD NAV Change	-0.19
YTD Market Price Change	-0.46

IPO Yield ³	5.85%
Market Yield ³	6.24%
Last Dividend Paid	\$0.0488
Last 12-month Dividend	\$0.5871

Portfolio Summary*¹

PR Obligations	58.84%
PR Issuers	42.30%
Mortgage-Backed Securities	5.98%
Preferred Stocks	10.56%
US Obligations	41.16%
US Agencies	41.16%

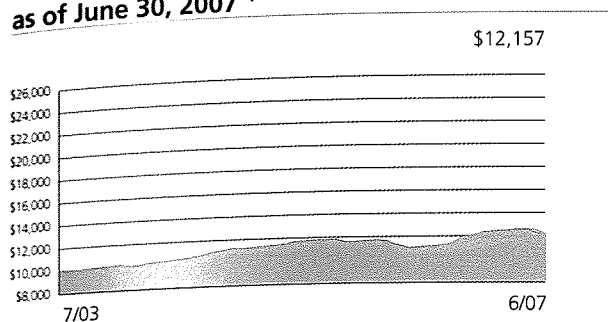
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	1.12%	-1.51%
1 Year	9.78%	9.68%
3 Years	5.04%	4.84%
5 Years	N/A	N/A
Life	5.28%	5.35%

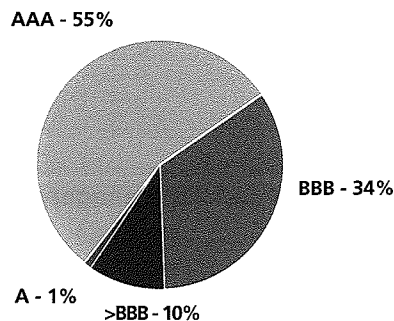
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with

Credit Quality¹



UBS Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since November 2005 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico Fixed Income Fund II, Inc.

Leslie Highley, Jr., Portfolio Manager since 2004, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income, consistent with the preservation of capital. In seeking to achieve its investment objective, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, mortgage-backed and asset-backed securities, corporate obligations and preferred stock, and municipal securities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 34,455 common shares in the open market with an NAV of \$302,722 at a cost of \$302,428.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	January 2004
Market Price	8.96
Net Asset Value	8.68
Premium/Discount	103.23%
Total Net Assets	\$406.95 million
Shares Outstanding	46,885,491

Leverage	\$311.90 million
% Leverage	44%
Hedge Notional ²	\$121.04 million
Leverage Cost	4.74%
Expense Ratio	1.30%

Weighted Average Coupon	5.85%
Average Maturity	19.30 years
Average Duration	11.45 years
Effective Duration	6.55 years
Undistributed Income	\$2,561,762

Pricing and Distribution History¹

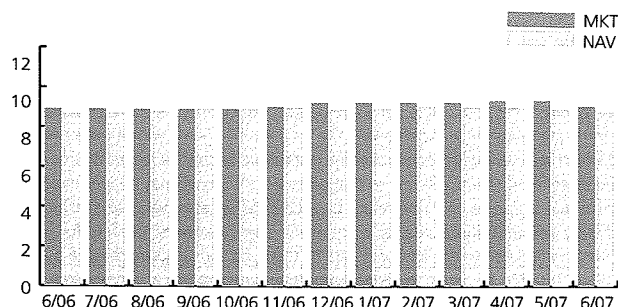
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.86/9.27
YTD NAV Change	-0.15
YTD Market Price Change	-0.21

IPO Yield ³	5.40%
Market Yield ³	6.03%
Last Dividend Paid	\$0.0450
Last 12-month Dividend	\$0.5400

Portfolio Summary*¹

PR Obligations	61.22%
PR Issuers	52.88%
Mortgage-Backed Securities	2.19%
Preferred Stocks	6.15%
US Obligations	38.78%
US Agencies	38.78%

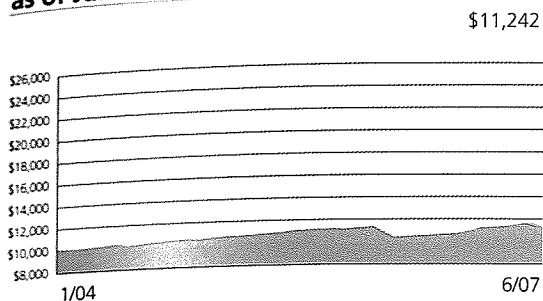
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	1.35%	0.80%
1 Year	6.93%	7.45%
3 Years	3.66%	2.73%
5 Years	N/A	N/A
Life	3.45%	3.49%

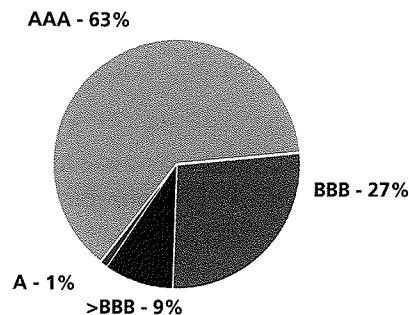
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated

Credit Quality¹



of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since November 2005 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico Fixed Income Fund III, Inc.

Leslie Highley, Jr., Portfolio Manager since 2004, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income, consistent with the preservation of capital. In seeking to achieve its investment objective, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, mortgage-backed and asset-backed securities, corporate obligations and preferred stock, and municipal securities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 42,095 common shares in the open market with an NAV of \$366,540 at a cost of \$366,059.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	August 2004	Leverage	\$336.94 million	Weighted Average Coupon	5.79%
Market Price	8.81	% Leverage	48%	Average Maturity	18.74 years
Net Asset Value	8.53	Hedge Notional ²	\$128.00 million	Average Duration	10.72 years
Premium/Discount	103.28%	Leverage Cost	4.73%	Effective Duration	6.28 years
Total Net Assets	\$411.32 million	Expense Ratio	1.31%	Undistributed Income	\$2,042,759
Shares Outstanding	48,193,874				

Pricing and Distribution History¹

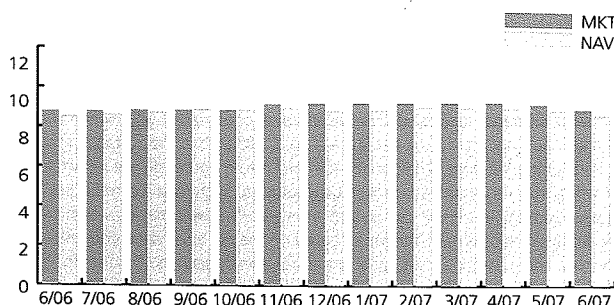
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.76/9.17
YTD NAV Change	-0.26
YTD Market Price Change	-0.36

IPO Yield ³	5.35%
Market Yield ³	6.07%
Last Dividend Paid	\$0.0446
Last 12-month Dividend	\$0.5333

Portfolio Summary*¹

PR Obligations	64.19%
PR Issuers	45.14%
Mortgage-Backed Securities	13.49%
Preferred Stocks	5.56%
US Obligations	35.81%
US Agencies	35.81%

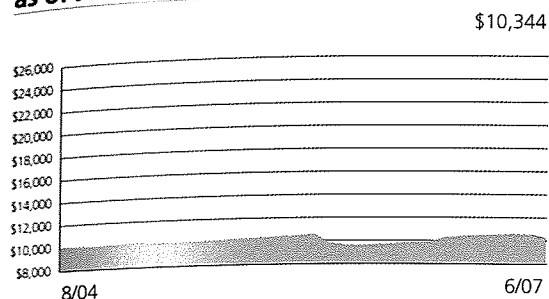
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	0.03%	-0.97%
1 Year	6.50%	6.80%
3 Years	N/A	N/A
5 Years	N/A	N/A
Life	1.79%	1.20%

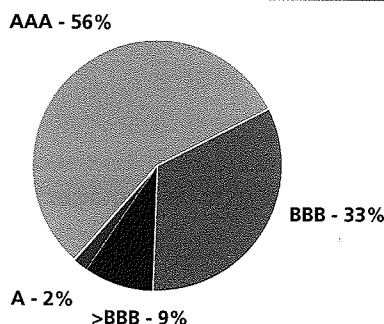
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated

Credit Quality¹



of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since November 2005 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico Fixed Income Fund IV, Inc.

Leslie Highley, Jr., Portfolio Manager since 2005, UBS Asset Managers of Puerto Rico

Investment Objective and Policies

Current income, consistent with the preservation of capital. In seeking to achieve its investment objective, the Fund invests at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers (as described in the Prospectus). The Fund may invest up to 33% of its total assets in taxable and tax-exempt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, mortgage-backed and asset-backed securities, corporate obligations and preferred stock, and municipal securities.* The Fund may increase amounts available for investment through the issuance of preferred stock, debt securities, and other forms of leverage representing not more than 50% of the Fund's total assets immediately after the issuance of such securities.

As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 932,080 common shares in the open market with an NAV of \$8,604,945 at a cost of \$8,596,421.

Portfolio Statistics and Characteristics¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

Commencement	March 2005	Leverage	\$334.88 million	Weighted Average Coupon	5.91%
Market Price	9.22	% Leverage	45%	Average Maturity	17.82 years
Net Asset Value	8.98	Hedge Notional ²	\$130.00 million	Average Duration	10.37 years
Premium/Discount	102.67%	Leverage Cost	4.60%	Effective Duration	5.81 years
Total Net Assets	\$409.97 million	Expense Ratio	1.24%	Undistributed Income	\$3,570,858
Shares Outstanding	45,658,407				

Pricing and Distribution History¹

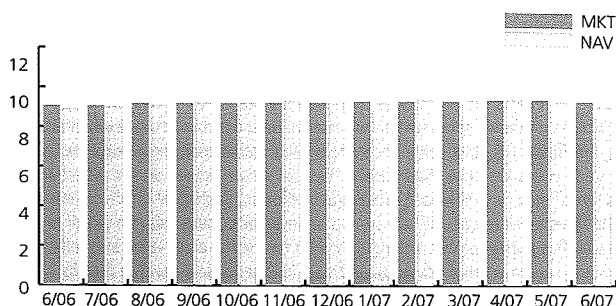
Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	9.07/9.32
YTD NAV Change	-0.23
YTD Market Price Change	0.00

IPO Yield ³	5.55%
Market Yield ³	6.02%
Last Dividend Paid	\$0.0463
Last 12-month Dividend	\$0.5479

Portfolio Summary*¹

PR Obligations	54.21%
PR Issuers	34.44%
Mortgage-Backed Securities	16.44%
Preferred Stocks	3.33%
US Obligations	45.79%
US Agencies	45.79%

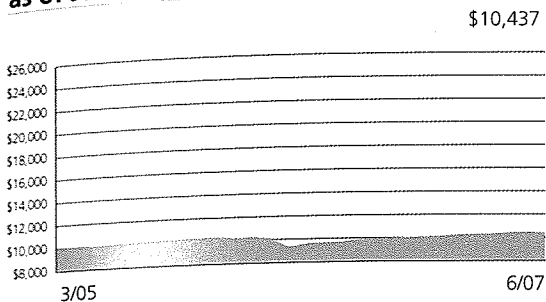
Historical Market Price and NAV



Performance⁴

	NAV Return	Market Return
YTD	0.48%	3.05%
1 Year	6.74%	7.90%
3 Years	N/A	N/A
5 Years	N/A	N/A
Life	2.98%	1.92%

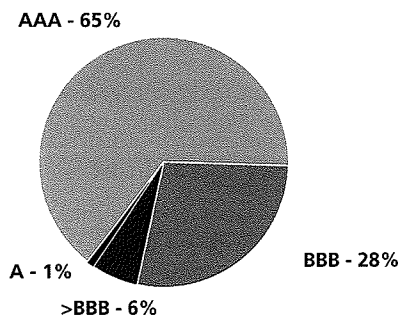
Growth of a \$10,000 Investment as of June 30, 2007⁴



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long-term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS Financial Services Incorporated

Credit Quality¹



of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since March 2006 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
 2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
 3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
 4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.

Leslie Highley, Jr., Portfolio Manager since 2004, UBS Asset Managers of Puerto Rico

Luis Aldea, Portfolio Manager since 2007, RG Premier Bank of Puerto Rico

Investment Objective and Policies

The Fund's investment objective is to provide investors in its Common Stock with current income, consistent with the preservation of capital. The Fund will normally invest at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers, including securities issued by the Commonwealth of Puerto Rico and its political subdivisions and instrumentalities, mortgage instruments, mortgage-backed and asset-backed securities, corporate obligations, and preferred stock. The Fund may invest up to 33% of its total assets in taxable and tax-exempt securities issued by the U.S. Government, its agencies and instrumentalities, non-Puerto Rico mortgage instruments, non-Puerto Rico mortgage-backed and asset-backed securities, corporate obligations or preferred stock of non-Puerto Rico issuers, municipal securities of issuers within the U.S., and in other non-Puerto Rico Securities which the Fund's investment advisers may select, consistent with the Fund's investment objective and policies. At least 80% of the Fund's total assets are invested in (i) mortgage instruments which are comprised of whole residential non-conforming mortgage loans, securities issued by grantor trusts in connection with pooled mortgage loans and participation certificates in pools of mortgage loans; (ii) securities issued or guaranteed by the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and/or other mortgage-backed securities and collateralized mortgage obligations collateralized with securities issued or guaranteed by GNMA, FNMA or FHLMC; and (iii) securities issued or guaranteed by the U.S. Government, its agents and/or instrumentalities. As of April 7, 2006 the Board of Directors of the Fund approved a share repurchase program for up to 5% of outstanding shares of common stock and any additional shares for its dividend reinvestment plan. The repurchase program was approved by the Office of the Commissioner of Financial Institutions on May 9, 2006 and is effective for a one-year period. It is intended to enhance shareholder value and provide additional liquidity to Fund shareholders.

For the quarter ended on June 30, 2007 the Fund repurchased 109,691 common shares in the open market with an NAV of \$983,143 at a cost of \$979,420.

Portfolio Statistics and Characteristics ¹

Please refer to the Glossary at the end of the report for definitions of certain terms listed below.

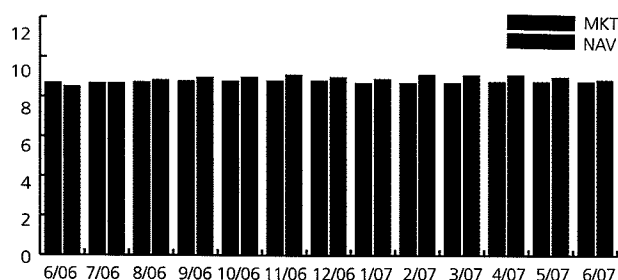
Commencement	October 2004	Leverage	\$132.30 million	Weighted Average Coupon	5.62%
Market Price	8.76	% Leverage	48%	Average Maturity	11.29 years
Net Asset Value	8.84	Hedge Notional ²	\$49.97 million	Average Duration	6.90 years
Premium/Discount	99.10%	Leverage Cost	4.87%	Effective Duration	4.71 years
Total Net Assets	\$148.12 million	Expense Ratio	1.17%	Undistributed Income	\$720,676
Shares Outstanding	16,754,550				

Pricing and Distribution History¹

Initial Public Offering (IPO) Price	10.00
52-Week Market Low/High	8.71/8.81
YTD NAV Change	-0.16
YTD Market Price Change	-0.05

IPO Yield ³	4.80%
Market Yield ³	5.48%
Last Dividend Paid	\$0.0400
Last 12-month Dividend	\$0.4842

Historical Market Price and NAV



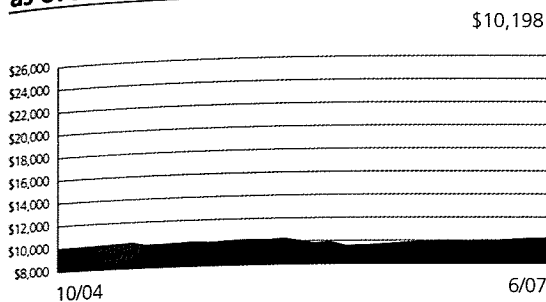
Portfolio Summary*¹

PR Obligations	65.58%
Mortgage-Backed Securities	64.84%
Preferred Stocks	0.74%
US Obligations	34.42%
US Agencies	34.42%

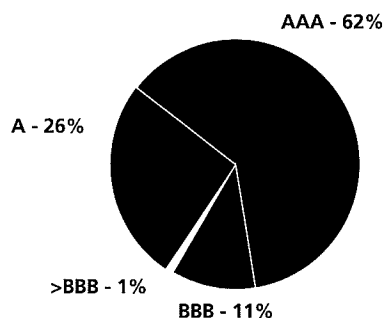
Performance ⁴

	NAV Return	Market Return
YTD	0.89%	2.13%
1 Year	9.26%	6.10%
3 Years	N/A	N/A
5 Years	N/A	N/A
Life	3.08%	0.76%

Growth of a \$10,000 Investment as of June 30, 2007⁴



Credit Quality¹



Special Considerations

The Fund is a non-diversified, closed-end management investment company registered under the Puerto Rico Investment Companies Act, as amended. Investors should understand that the Fund's yield and net asset value fluctuate and can be affected by changes in interest rates, general market conditions and other political, social, and economic developments. An investment in the Fund involves certain risks, including the loss of any amounts invested. There is no assurance that the Fund will be able to effect distributions of principal in accordance with its investment objectives or otherwise return an amount at least equal, in the aggregate, to the initial public offering price of \$10 per share of common stock. It is appropriate for long term investors and is intended as one component of a balanced investment plan. The Fund should not be viewed as a vehicle for trading purposes. An investment in the Fund is not equivalent to an investment in the underlying securities of the Fund. In addition, the Fund's investment concentration in Puerto Rico securities makes the Fund more susceptible to risk factors affecting Puerto Rico securities than an investment company that is invested across a broader geographical range. The Fund's use of leverage is a speculative investment technique, which involves increased risk to the Fund's shareholders, including the possibility of higher volatility of both the net asset value and the market value of the shares of common stock. The Fund may enter into portfolio transactions with UBS

Financial Services Incorporated of Puerto Rico or any of its affiliates. Such transactions are conducted in accordance with procedures adopted by the Fund's Board of Directors in an effort to address potential conflicts of interest. It is important to note that the Fund's shares of common stock may trade at either a discount or premium of net asset value. The Fund's shares of common stock may be purchased or otherwise transferred only to individuals who are residents of Puerto Rico and to persons other than individuals, whose principal office and principal place of business are located in Puerto Rico. These securities are not insured nor are they deposits or obligations of, or guaranteed by, UBS Financial Services Incorporated of Puerto Rico or its affiliates. In addition, securities issued by the Fund are not deposits and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. Government.

Past performance is no guarantee of future results. The investment return and principal value of an investment in the shares of common stock will fluctuate and may be worth more or less than the original amount invested. Investments in the shares of common stock are intended for Puerto Rico residents and may not be suitable for all investors. Before making an investment in the Fund, investors are encouraged to read the Annual Report. For more up to date information, please contact your Financial Advisor.

* Subject to certain requirements in the Fund's Prospectus. Since September 2006 the Fund has received temporary authorizations from the Office of the Commissioner of Financial Institutions ("OCFI") to deviate from its investment requirements in Puerto Rico Obligations, subject to the obligation to purchase suitable Puerto Rico securities as they become available under normal market conditions. Such temporary authorizations have been periodically extended by the OCFI, though there is no guarantee that they will be so extended in the future.

1. As of June 30, 2007. The Fund's portfolio is actively managed, and its composition, including the portfolio statistics and characteristics, will vary over time.
2. The Fund may use a variety of derivative instruments including securities options, financial futures contracts, options on futures contracts, and other interest rate protection transactions such as swap agreements, to attempt to hedge its portfolio of assets and seek to enhance its return. There can be no assurance that the Investment Adviser(s) will employ any hedging strategies with respect to all or any part of the Fund's portfolio and that any particular hedging strategy adopted will succeed.
3. Market yield is calculated by multiplying the current month's distribution by twelve and dividing by the average between the bid and ask month-end market prices. IPO yield is calculated by multiplying the current month's distribution by twelve and dividing by the initial public offering price. Prices and yields may vary. For more up-to-date information please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888.
4. As of June 30, 2007. Total return figures are calculated by Wiesenberger, a unit of Thomson Financial, based on certain financial data provided by the Fund and are used with Wiesenberger's consent. Total return figures are annualized. The Fund's market return reflects the percentage change in the market value determined by calculating the average between the bid and ask price with capital gains distributions and income dividends reinvested at net asset value (or at market value when Shares are repurchased in the open market) on the pay date. In the case of net asset value return, the Fund's net asset value per Share is used, rather than the average between the bid and ask price, to determine such total return. Closed-end funds such as this Fund trade at market price. Additionally, the total return figures do not reflect any commissions or sales charges payable in connection with a purchase or sale of Shares and which may vary with each brokerage institution. Such total return figures are not representative of the performance of an individual investment. The price of a Share and investment return will vary so that an investor's Shares may be worth more or less than their original cost. The \$10,000 investment is hypothetical and is shown for illustrative purposes only. The return based on the net asset value also reflects expenses incurred by the Fund for certain services, including among others, investment advisory, administration, custody, and transfer agency services. The fees for such services are based on a percentage of the Fund's portfolio assets. To obtain additional information related to the amounts paid by the Fund for such services or a copy of the Fund's Annual Report, please contact the Tax-Free Puerto Rico Family of Funds at 787-773-3888. To obtain the Fund's month-end performance, contact your UBS Financial Advisor or call the Fund at 787-773-3888 or see "press releases" at www.ubs.com/financialservicesinc [key word: Puerto Rico Funds].

Portfolio Breakdown by Fund

Puerto Rico Investors Tax-Free Fund, Inc.

PR Obligations	
Preferred Stocks	
First Bancorp	1.08%
R&G Financial	0.17%
W Holding Co.	1.23%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	6.25%
AFICA	
Coco Beach	1.50%
Cogen FAC	0.78%
Doral Financial	1.20%
FSE Carolina	0.09%
Hampton Inn	0.29%
Humacao Judicial	1.62%
Palmas del Mar	0.46%
Plaza Las Americas	0.15%
Torre Chardon	1.08%
PR Conservation	
R&G	2.42%
Doral	2.06%
Santander	1.26%
Childrens Trust Fund	0.60%
PR Housing Finance	1.50%
PR Public Finance	9.66%
PR Comm Hwy & Transp	2.39%
PR Comm Gen Obl	1.08%
PRIDCO	1.01%
GDB Sr Notes	21.55%
Other PR Tax-Exempt	0.93%
PR Obligations	60.36%
US Obligations	
Federal Home Loan Bank	39.64%
US Obligations	39.64%

Puerto Rico Investors Tax-Free Fund III, Inc.

PR Obligations	
Preferred Stocks	
First Bancorp	1.03%
R&G Financial	0.54%
W Holding Co.	1.20%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	9.23%
AFICA	
American Int'l Plaza	0.45%
Coco Beach	0.45%
Cogen FAC	0.56%
El Nuevo Día	0.30%
Doral Financial	1.50%
Hampton Inn	0.68%
Palmas del Mar	2.07%
Plaza las Americas	0.23%
SJ Marriott	0.41%
Torre Chardon	0.49%
PR Conservation	
R&G	1.84%
Doral	2.54%
Santander	1.58%
Childrens Trust Fund	3.21%
PR Public Finance	10.29%
PR Comm Hwy & Transp	1.62%
PR Comm Gen Obl	0.91%
PRIDCO	3.01%
GDB Sr Notes	16.30%
Other PR Tax-Exempt	1.42%
PR Obligations	61.86%
US Obligations	
Federal Home Loan Bank	38.14%
US Obligations	38.14%

Puerto Rico Investors Tax-Free Fund Inc. II

PR Obligations	
Preferred Stocks	
First Bancorp	1.05%
W Holding Co.	1.21%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	4.74%
AFICA	
American Int'l Plaza	0.59%
Coco Beach	0.27%
Cogen FAC	0.17%
El Nuevo Día	0.03%
Doral Financial	1.06%
FSE Carolina	0.08%
Hampton Inn	0.27%
Palmas del Mar	3.02%
San Patricio	0.53%
SJ Marriott	0.42%
Torre Chardon	0.73%
PR Conservation	
R&G	2.63%
Doral	2.12%
Santander	1.14%
PR Housing Finance	1.66%
PR Public Finance	7.26%
PR Comm Hwy & Transp	2.53%
PR Comm Gen Obl	1.00%
PRIDCO	0.62%
GDB Sr Notes	29.59%
Other PR Tax-Exempt	1.70%
PR Obligations	64.42%
US Obligations	
Federal Home Loan Bank	35.58%
US Obligations	35.58%

Puerto Rico Investors Tax-Free Fund IV, Inc.

PR Obligations	
Preferred Stocks	
First Bancorp	1.04%
R&G Financial	0.20%
W Holding Co.	1.38%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	9.21%
AFICA	
American Int'l Plaza	0.13%
Coco Beach	0.16%
Cogen FAC	0.17%
El Nuevo Día	0.09%
Doral Financial	1.13%
FSE Carolina	0.09%
Humacao Judicial	0.51%
Palmas del Mar	0.55%
Torre Chardon	0.53%
PR Conservation	
R&G	2.34%
Doral	2.37%
Santander	1.32%
Childrens Trust Fund	1.03%
PR Public Finance	11.74%
PR Comm Hwy & Transp	0.23%
PR Comm Gen Obl	1.02%
GDB Sr Notes	12.25%
Other PR Tax-Exempt	2.64%
PR Obligations	50.13%
US Obligations	
Federal Home Loan Bank	49.87%
US Obligations	49.87%

Puerto Rico Investors Tax-Free Fund V, Inc.

PR Obligations	
Preferred Stocks	
First Bancorp	1.06%
W Holding Co.	1.27%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	9.70%
AFICA	
El Nuevo Día	0.06%
Doral Financial	2.90%
Palmas del Mar	0.33%
SJ Marriot	0.08%
Torre Chardon	0.68%
PR Conservation	
R&G	2.48%
Doral	1.74%
Santander	1.45%
Childrens Trust Fund	1.77%
PR Housing Finance	7.17%
PR Public Finance	8.95%
PR Comm Hwy & Transp	0.32%
PR Comm Gen Obl	0.67%
PRIDCO	9.30%
GDB Sr Notes	12.25%
Other PR Tax-Exempt	1.84%
PR Obligations	64.02%
US Obligations	
Federal Home Loan Bank	35.98%
US Obligations	35.98%

Puerto Rico Investors Tax-Free Fund VI, Inc.

PR Obligations	
Preferred Stocks	
First Bancorp	1.02%
W Holding Co.	1.18%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	2.99%
AFICA	
Carolina Judicial	0.65%
Coco Beach	0.68%
Cogen Fac-Aes	4.08%
El Nuevo Día	0.01%
FSE Carolina	1.00%
Humacao Judicial	2.92%
Plaza Las Americas	5.36%
SJ Marriot	0.15%
Torre Chardon	0.33%
PR Conservation	
R&G	1.68%
Santander	2.03%
PR Corporate Notes/Bonds	1.13%
Childrens Trust Fund	1.09%
PR Public Finance	19.67%
PR Housing Finance	4.32%
PR Comm Hwy & Transp	0.54%
PR Comm Gen Obl	0.21%
PRIDCO	4.37%
GDB Sr Notes	7.94%
Other PR Tax-Exempt	1.06%
PR Obligations	64.41%
US Obligations	
Federal Home Loan Bank	35.59%
US Obligations	35.59%

Puerto Rico Tax-Free Target Maturity Fund, Inc.

PR Obligations	
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	23.48%
PR Conservation	
Doral	1.27%
PR Public Finance	5.41%
PR Housing Finance	4.81%
PRIDCO	1.10%
PR Comm Hwy & Transp	0.74%
GDB Notes	1.58%
Other PR Tax-Exempt	9.07%
PR Obligations	47.46%
US Obligations	
Federal Home Loan Bank	52.54%
US Obligations	52.54%

Puerto Rico Tax-Free Target Maturity Fund II, Inc.

PR Obligations	
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	25.46%
PR Conservation	
Doral	1.91%
PR Public Finance	0.20%
PR Housing Finance	9.29%
PRIDCO	0.28%
Other PR Tax-Exempt	14.80%
PR Obligations	51.94%
US Obligations	
Federal Home Loan Bank	48.06%
US Obligations	48.06%

Puerto Rico Investors Bond Fund I

PR Obligations	
Preferred Stocks	
Doral Financial	1.68%
First Bancorp	0.95%
W Holding Co.	0.67%
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	13.73%
AFICA	
American Int'l Plaza	0.06%
Coco Beach	0.22%
Cogen Fac-Aes	5.52%
Torre Chardon	0.03%
El Nuevo Día	0.18%
Palmas del Mar	0.99%
Plaza Las Americas	3.90%
San Patricio Plaza	0.21%
SJ Marriott	0.22%
PR Conservation	
R&G	0.82%
Santander	3.50%
PR Corporate Notes/Bonds	
Doral Financial Note	1.53%
Childrens Trust Fund	1.04%
PR Public Finance	11.47%
PR Housing Finance	6.25%
PR Comm Gen Obl	1.13%
PRIDCO	1.94%
GDB Sr Notes	1.90%
Other PR Tax-Exempt	3.62%
PR Obligations	61.56%
US Obligations	
Federal Home Loan Bank	38.44%
US Obligations	38.44%

Tax-Free Puerto Rico Fund II, Inc.

PR Obligations	
Preferred Stocks	
Doral Financial	0.36%
W Holding Co.	0.62%
Trust Preferred	
Popular	2.04%
R&G	0.42%
Mortgage-Backed Securities	
Participate Certificate - Doral	5.58%
AFICA	
Ashford Comty	0.71%
Coco Beach	0.01%
Doral Financial	0.40%
El Nuevo Día	0.20%
Humacao Judicial	0.06%
Palmas Country	0.27%
San Patricio	1.50%
Torre Chardon	1.83%
PR Conservation	
R&G	2.33%
Doral	2.34%
Santander	0.80%
PR Public Finance	40.25%
PRIDCO	2.87%
GDB Sr Notes	1.58%
PR Obligations	64.17%
US Obligations	
Federal Home Loan Bank	35.83%
US Obligations	35.83%

Tax-Free Puerto Rico Fund, Inc.

PR Obligations	
Preferred Stocks	
Doral Financial	0.11%
First Bancorp	0.24%
W Holding Co.	1.48%
Trust Preferred	
R&G	0.32%
Mortgage-Backed Securities	
GNMA, FNMA, Part Cert., CMO	0.89%
Participate Certificate	7.86%
AFICA	
Ashford Comt	0.04%
Coco Beach	0.75%
Doral Financial	0.20%
El Nuevo Día	4.01%
FSE Carolina	1.77%
Hampton Inn	0.31%
Humacao Judicial	0.05%
Palmas Country	2.05%
Plaza Caribe	0.04%
Plaza Las Americas	0.23%
San Patricio	0.14%
SJ Marriott	0.25%
PR Conservation	
Doral	1.01%
R&G	2.33%
Santander	0.83%
PR Public Finance	32.20%
PR Go's	0.93%
PR Hwy & Transp	0.37%
PRIDCO	0.46%
GDB Sr Notes	2.24%
Other PR Tax-Exempt	1.53%
PR Obligations	62.64%
US Obligations	
Federal Home Loan Bank	35.63%
Portland Oregon	1.73%
US Obligations	37.36%

Tax-Free Puerto Rico Target Maturity Fund, Inc.

PR Obligations	
Mortgage-Backed Securities	
GNMA, FNMA, Freddie Mac, CMO	1.98%
Participate Certificate - Doral	4.92%
AFICA	
Coco Beach	0.21%
Doral Financial	0.02%
FSE Carolina	0.16%
Humacao Judicial	0.16%
Palmas Country	0.02%
Plaza Las Americas	0.96%
San Patricio	0.06%
SJ Marriott	0.08%
PR Conservation	
Doral	1.09%
PR Public Finance	52.42%
PR Hwy & Transp	0.36%
GDB Sr Notes	1.08%
PR Obligations	63.52%
US Obligations	
Federal Home Loan Bank	34.68%
Other US Municipals	1.80%
US Obligations	36.48%

**Puerto Rico AAA Portfolio
Target Maturity Fund, Inc.**

PR Obligations	
Mortgage-Backed Securities GNMA, FNMA, Freddie Mac, CMO	29.43%
EDB Note	20.35%
PR Housing	3.62%
PR Public Finance	0.43%
GDB Sr Notes	1.12%
PR Corporate Notes/Bonds	1.72%
Other PR Tax-Exempt	2.68%
PR Obligations	59.35%
US Obligations	
Federal Home Loan Bank	40.65%
US Obligations	40.65%

Puerto Rico AAA Portfolio Bond Fund, Inc.

PR Obligations	
Preferred Stocks	
Doral Financial	0.10%
First Bancorp	1.47%
R&G Financial	0.04%
W Holding Co.	0.68%
Mortgage-Backed Securities GNMA, FNMA, FGLMC	38.44%
Childrens Trust	0.97%
EDB Note	12.76%
PR Housing	0.90%
PR Public Finance	1.80%
PR Obligations	57.16%
US Obligations	
Federal Home Loan Bank	42.84%
US Obligations	42.84%

**Puerto Rico GNMA & U.S. Government
Target Maturity Fund, Inc.**

PR Obligations	
Mortgage-Backed Securities GNMA, CMO	62.68%
PR Conservation- R&G	0.76%
PR Go's	0.55%
MBS	1.43%
PR Obligations	65.42%
US Obligations	
Federal Home Loan Bank	34.58%
US Obligations	34.58%

**Puerto Rico Mortgage-Backed & U.S.
Government Security Fund, Inc.**

PR Obligations	
Preferred Stocks W Holding Co.	0.74%
Mortgage-Backed Securities GNMA, FNMA, FGLMC	27.77%
R&G Non Conforming Mtge Loan Trust	25.98%
GDB Notes	11.09%
PR Obligations	65.58%
US Obligations	
Federal Home Loan Bank	34.42%
US Obligations	34.42%

Puerto Rico AAA Portfolio Bond Fund II, Inc.

PR Obligations	
Mortgage-Backed Securities GNMA, FNMA, FGLMC	46.45%
PR Housing	8.47%
PR Obligations	54.92%
US Obligations	
Federal Home Loan Bank	45.08%
US Obligations	45.08%

Puerto Rico Fixed Income Fund, Inc.**PR Obligations**

Preferred Stocks	
Doral Financial	0.09%
First Bancorp	5.37%
R&G Financial	0.32%
W Holding Co.	1.35%
Universal Group Inc.	3.43%
Trust Preferred	
Popular	5.92%
Mortgage-Backed Securities	
GNMA, FNMA, CMO	5.40%
Participate Certificate - Doral	0.58%
AFICA	
Doral Financial	0.04%
SJ Marriott	0.08%
PR Conservation	
Santander	1.85%
Childrens Trust	0.58%
PR Public Finance	1.26%
PR Hwy & Transp	4.49%
PR Go's	3.76%
PRIDCO	1.33%
GDB Sr Notes	12.79%
Other PR Tax-Exempt	10.20%
PR Obligations	58.84%

US Obligations

Federal Home Loan Bank	41.16%
US Obligations	41.16%

Puerto Rico Fixed Income Fund II, Inc.**PR Obligations**

Preferred Stocks	
First Bancorp	0.71%
Universal Group, Inc.	2.71%
W Holding Co.	2.73%
Trust Preferred	
Popular	0.45%
R&G	2.96%
Mortgage-Backed Securities	
GNMA	0.42%
Participate Certificate- Doral	1.77%
AFICA	
Plaza las Américas	0.28%
PR Conservation	
Santander	1.57%
EDB Note	10.43%
PR Public Finance	3.54%
GDB Sr Notes	20.45%
Other PR Tax-Exempt	13.20%
PR Obligations	61.22%

US Obligations

Federal Home Loan Bank	38.78%
US Obligations	38.78%

Puerto Rico Fixed Income Fund III, Inc.**PR Obligations**

Preferred Stocks	
Doral Financial	0.07%
First Bancorp	0.57%
Universal Group, Inc.	2.52%
W Holding Co.	2.40%
Trust Preferred	
R&G	2.20%
Mortgage-Backed Securities	
GNMA & FNMA	13.49%
AFICA	
El Nuevo Día	0.13%
San Patricio	1.21%
PR Conservation	
Santander	5.93%
Doral Fn'l Corp Note	0.06%
EDB Note	7.23%
PR Public Finance	2.53%
PR Go's	0.12%
GDB Sr Note	23.76%
Other PR Tax-Exempt	1.97%
PR Obligations	64.19%

US Obligations

Federal Home Loan Bank	35.81%
US Obligations	35.81%

Puerto Rico Fixed Income Fund IV, Inc.**PR Obligations**

Preferred Stocks	
Universal Group, Inc.	3.27%
W Holding Co	0.06%
Mortgage-Backed Securities	
GNMA, FNMA & FGLMC	16.44%
AFICA	
Costa Caribe Resort	0.67%
PR Conservation	
Santander	4.21%
Doral Fn'l Corp Note	0.07%
EDB Note	2.50%
PR Public Finance	2.42%
PR Highway & Transp	0.19%
PR Go's	0.88%
PR Corporate Notes/Bonds	2.64%
PRIDCO	0.16%
GDB Sr Note	19.49%
Other PR Tax-Exempt	1.21%
PR Obligations	54.21%

US Obligations

Federal Home Loan Bank	45.79%
US Obligations	45.79%

Glossary of Fund Terms

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 on the 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 of 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 Ratings.

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.

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.

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.

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, enter into 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 an investment in the fund.

Market Price - average of month end bid and ask price.

Notional Amount - refers to the specific dollar amount of the swap in which the exchange of interest payment is based.

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 securities outstanding.

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.

Premium/Discount - the difference between the market price of the shares of a fund and their NAV. In the 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 percentages. The higher the percentage, the larger the difference (positive or negative) between the market price 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.

Reverse 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 (i.e., \$10) investment.

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