

NEW ISSUE – BOOK-ENTRY ONLY

Ratings: see “RATINGS” herein

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Virgin Islands Public Finance Authority (the “Authority”), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project), Series 2009A (the “Series 2009A Bonds”) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2009A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2009A Bonds is exempt from personal income tax imposed by the United States Virgin Islands, or by any state, territory, or possession or by any political subdivision thereof or by the District of Columbia. See “TAX MATTERS.”



\$250,000,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Subordinated Revenue Bonds
(Virgin Islands Matching Fund Loan Note – Diageo Project)
Series 2009A

Dated: Date of Delivery**Due:** October 1, as shown on the inside cover page

The Series 2009A Bonds will bear interest at a fixed rate as described herein and are issuable initially in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof and will be issued initially as a single registered bond for each maturity registered in the name of Cede & Co., the nominee of The Depository Trust Company (“DTC”), New York, New York. Beneficial ownership interests in the Series 2009A Bonds will be available for purchase in book-entry form only. Except in limited circumstances, purchasers of the Series 2009A Bonds will not receive physical delivery of the Series 2009A Bond certificates, as further described herein. Principal of, Redemption Price, if applicable, of, and interest on the Series 2009A Bonds will be paid by the Paying Agent to DTC, who will remit payment to DTC Participants, with such payments to be subsequently disbursed to the beneficial owners of the Series 2009A Bonds, as further described herein. The Series 2009A Bonds will be subject to redemption prior to maturity as described herein. The Bank of New York Mellon Trust Company, N.A., located in Jacksonville, Florida, is the Trustee with respect to the Series 2009A Bonds. See “THE SERIES 2009A BONDS.” Interest on the Series 2009A Bonds will be payable semiannually on October 1 and April 1, commencing October 1, 2009.

The Series 2009A Bonds are being issued by the Authority to (i) make a loan to the Government of the Virgin Islands (the “Government”) which will provide a grant to Diageo USVI Inc. (“Diageo USVI”) to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the “Diageo Project”), (ii) pay in full the principal and interest due on the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project), Series 2009A, expected to be issued on June 29, 2009, to finance certain preliminary costs of the Diageo Project, (iii) pay capitalized interest on the Series 2009A Bonds, (iv) fund the Series 2009A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2009A Debt Service Reserve Requirement and (v) pay the costs of issuing the Series 2009A Bonds. See “SOURCES AND USES OF FUNDS.”

The Series 2009A Bonds will be issued under and secured by the Subordinated Indenture of Trust, dated as of June 1, 2009, as previously supplemented, and as further supplemented by the Second Supplemental Subordinated Indenture of Trust, dated as of July 1, 2009 (collectively, the “Subordinated Indenture”), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Trustee will act as Registrar and Paying Agent for the Series 2009A Bonds. The Series 2009A Bonds will be secured by a special limited obligation Series 2009A Subordinated Matching Fund Loan Note (the “Series 2009A Loan Note”), issued by the Government pursuant to a Loan Agreement, dated as of July 1, 2009, among the Authority, the Trustee and the Government (the “Series 2009A Loan Agreement”).

THE SERIES 2009A BONDS ARE LIMITED SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE FROM AND SECURED BY A PLEDGE OF THE DIAGEO TRUST ESTATE WHICH INCLUDES CERTAIN FUNDS ESTABLISHED UNDER THE SUBORDINATED INDENTURE, INCLUDING THE SUBORDINATED PLEDGED REVENUE ACCOUNT AND THE SERIES 2009A SENIOR LIEN DEBT SERVICE RESERVE SUBACCOUNT. THE SERIES 2009A LOAN NOTE IS A SPECIAL LIMITED OBLIGATION OF THE GOVERNMENT AND IS SOLELY SECURED BY A PLEDGE OF REVENUES RECEIVED BY THE GOVERNMENT FROM THE UNITED STATES DEPARTMENT OF THE TREASURY (THE “DIAGEO MATCHING FUND REVENUES”) AS A TRANSFER OF FEDERAL EXCISE TAXES IMPOSED AND COLLECTED UNDER THE CODE IN ANY FISCAL YEAR ON RUM PRODUCED BY DIAGEO USVI IN THE UNITED STATES VIRGIN ISLANDS AND EXPORTED TO THE UNITED STATES AND IS SUBJECT TO FEDERAL EXCISE TAX THAT QUALIFIES FOR TRANSFER TO THE GOVERNMENT. THE SERIES 2009A BONDS ARE BEING ISSUED ON A SUBORDINATED BASIS TO CERTAIN OUTSTANDING SENIOR BONDS AND ANY ADDITIONAL BONDS (AS SUCH TERMS ARE DEFINED HEREIN) HEREAFTER ISSUED PURSUANT TO THE INDENTURE OF TRUST, DATED AS OF MAY 1, 1998, AS PREVIOUSLY SUPPLEMENTED (THE “SENIOR INDENTURE”), BY AND BETWEEN THE AUTHORITY AND THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., AS TRUSTEE. SEE “MATCHING FUND REVENUES.”

The Series 2009A Bonds shall under no circumstances constitute a general obligation of the Authority, the United States Virgin Islands, the United States of America or Diageo USVI nor shall the Series 2009A Bonds be evidence of a debt of the United States of America, the United States Virgin Islands or Diageo USVI nor shall the United States of America, the United States Virgin Islands or Diageo USVI be liable thereon. The taxing power of the Government is not pledged for the Series 2009A Loan Note or the Series 2009A Bonds. The Authority has no taxing power.

THE PURCHASE AND OWNERSHIP OF THE SERIES 2009A BONDS INVOLVES CERTAIN INVESTMENT RISKS. INFORMATION CONTAINED ON THIS COVER IS A SUMMARY ONLY. PROSPECTIVE PURCHASERS OF THE SERIES 2009A BONDS ARE ADVISED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. SEE “CERTAIN BONDHOLDER RISKS.”

The Series 2009A Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands, for Diageo USVI by its counsel, DLA Piper LLP (US), New York, New York, and Nichols Neuman Logan & Grey, P.C., St. Croix, Virgin Islands, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C. It is expected that the Series 2009A Bonds will be available for delivery to DTC in New York, New York on or about July 9, 2009.

J.P. Morgan

Citi**Rice Financial Products Company**

Jefferies & Company

Dated: June 26, 2009

MATURITY SCHEDULE

\$250,000,000

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Subordinated Revenue Bonds
(Virgin Islands Matching Fund Loan Note – Diageo Project)
Series 2009A

\$8,330,000 6.000% Term Bond due October 1, 2014, priced to yield 5.70%, CUSIP No. 927676NP7
\$26,290,000 6.750% Term Bond due October 1, 2019, priced to yield 6.25%, CUSIP No. 927676NQ5
\$87,880,000 6.625% Term Bond due October 1, 2029, priced to yield 6.75%, CUSIP No. 927676NR3
\$127,500,000 6.750% Term Bond due October 1, 2037, priced to yield 6.90%, CUSIP No. 927676NS1

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

32-33 Kongens Gade
Charlotte Amalie
St. Thomas, United States Virgin Islands 00802
www.USVIPFA.com
Julito A. Francis, Director of Finance and Administration

BOARD OF DIRECTORS*

The Honorable John P. deJongh, Jr., Governor – Chairman
Angel E. Dawson, Jr., Commissioner of Finance – Executive Director
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Pablo O’Neill – St. Croix Representative
Keith C. O’Neale, Jr. – St. Croix Representative

TRUSTEE, BOND REGISTRAR AND PAYING AGENT

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

BOND COUNSEL

Hawkins Delafield & Wood LLP
New York, New York

FINANCIAL ADVISOR

Fiscal Strategies Group
Swarthmore, Pennsylvania

* Currently there is one vacancy on the Board.

This Official Statement is furnished in connection with the sale of the Series 2009A Bonds and may not be reproduced or be used, in whole or in part, for any other purpose. The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement, including the Appendices attached hereto, nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Authority, the Government or the other matters described herein since the date hereof or that the information herein is correct as of any time subsequent to its date.

No dealer, salesman or any other person has been authorized by the Authority, the Government or the Underwriters to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein and, if given, or made, such other information or representation must not be relied upon as having been authorized by the Authority, the Government or the Underwriters. This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Series 2009A Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information contained in this Official Statement has been obtained from the Authority, the Government, Diageo USVI, IHS Global Insight (USA), Inc. and other sources which are believed to be reliable, based primarily on a review of such information and discussions with the Government, the Authority, Diageo USVI and IHS Global Insight (USA), Inc. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

THE SERIES 2009A BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM (“ORIGINAL BOUND FORMAT”) OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: www.munios.com. THIS OFFICIAL STATEMENT MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR AS PRINTED IN ITS ENTIRETY DIRECTLY FROM SUCH WEBSITE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2009A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES OR YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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OFFICIAL STATEMENT

\$250,000,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Subordinated Revenue Bonds
(Virgin Islands Matching Fund Loan Note – Diageo Project)
Series 2009A

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, the inside cover page and the appendices, is to furnish certain information concerning the Virgin Islands Public Finance Authority (the “Authority”) and the sale and delivery of its Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project), Series 2009A, in the aggregate principal amount of \$250,000,000 (the “Series 2009A Bonds”).

The Series 2009A Bonds are being issued pursuant to a Subordinated Indenture of Trust dated as of June 1, 2009 (the “Subordinated Indenture of Trust”), as previously supplemented, and as further supplemented by a Second Supplemental Subordinated Indenture of Trust dated as of July 1, 2009 (the “Second Supplemental Subordinated Indenture” and, together with the Subordinated Indenture of Trust, the “Subordinated Indenture”), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as trustee (the “Trustee”), and the Loan Agreement, dated as of July 1, 2009 (the “Series 2009A Loan Agreement”), by and among the Government (the “Government”) of the United States Virgin Islands (the “Virgin Islands”), the Trustee and the Authority.

The Series 2009A Bonds are being issued pursuant to the Virgin Islands Revised Organic Act of 1954, as amended (48 U.S.C. Section 1574 et seq.) (West 1987) (the “Revised Organic Act”), the laws of the Virgin Islands, including Title 29, Chapter 15, of the Virgin Islands Code, 1988 Virgin Islands Act No. 5365, 2008 Virgin Islands Act No. 7012 and 2009 Virgin Islands Act No. 7062 (together with the Revised Organic Act, the “Act”) and other applicable law. All capitalized terms not defined in this Official Statement have the meanings ascribed to them in APPENDIX D - “GLOSSARY OF CERTAIN DEFINED TERMS.”

Use of Proceeds

Proceeds of the Series 2009A Bonds will be used to (i) make a loan to the Government which will provide a grant to Diageo USVI Inc. (“Diageo USVI”) to finance the costs of the acquisition, design, construction, development and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the “Diageo Project”), (ii) pay in full the principal and interest due on the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project), Series 2009A (the “Series 2009A Bond Anticipation Notes”) expected to be issued on June 29, 2009, to finance certain preliminary costs of the Diageo Project, (iii) pay capitalized interest on the Series 2009A Bonds, (iv) fund the Series 2009A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2009A Debt Service Reserve Requirement and (v) pay the costs of issuing the Series 2009A Bonds. See “SOURCES AND USES OF FUNDS” and “THE DIAGEO PROJECT.”

Security and Source of Payment

The Series 2009A Bonds, together with any Additional Bonds (as defined herein) hereafter issued under the Subordinated Indenture, are payable and secured by a pledge of the Diageo Trust Estate (as defined herein). See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS.”

The Government entered into an agreement with Diageo USVI on June 17, 2008, as supplemented by a Letter dated June 25, 2009, from Diageo USVI to the Governor of the Virgin Islands (the “Governor”), and accepted by the Governor (as supplemented, the “Diageo Agreement”), a copy of which is attached hereto as APPENDIX B. The Diageo Agreement was ratified by the Legislature of the Virgin Islands (the “Legislature”) in 2008 Virgin Islands Act No. 7012, as amended by 2009 Virgin Islands Act No. 7062, and signed by the Governor on July 10, 2008. Pursuant to the Diageo Agreement, Diageo USVI agreed to develop the Diageo Project in the Virgin Islands in exchange for receipt of certain economic development incentives, including a grant of up to \$250 million from the Government to pay the cost of the Diageo Project, and certain additional benefits. The grant to Diageo USVI will be funded with proceeds of the Series 2009A Bonds loaned by the Authority to the Government pursuant to the Series 2009A Loan Agreement. See “THE DIAGEO AGREEMENT.”

To secure its obligation to repay the loan, the Government will issue its Series 2009A Loan Note (as defined herein), which is secured by the Diageo Trust Estate. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS.” Federal excise taxes collected on rum produced by Diageo USVI in the Virgin Islands and exported to the United States (the “Diageo Matching Fund Revenues”) will be transferred to the Diageo Special Escrow Agent (as defined herein) for the benefit of the Government and will secure the Government’s obligation to pay debt service on the Series 2009A Loan Note.

The Government, the Authority, Diageo USVI and the Trustee will enter into the Diageo Project Implementation Agreement, dated as of June 1, 2009 (the “Diageo Project Implementation Agreement”), a form of which is attached hereto as APPENDIX C, pursuant to which the Government and Diageo USVI have, among other things, established certain accounts required to implement the provisions of the Diageo Agreement and the Trustee has been directed to make the required deposits under the Diageo Agreement.

The Authority previously issued certain bonds (the “Senior Bonds”) pursuant to an Indenture of Trust, dated as of May 1, 1998, by and between the Authority, The Bank of New York Mellon Trust Company, N.A., as successor trustee, as previously amended and supplemented (the “Senior Indenture”). To secure its obligation to pay debt service on the Senior Bonds, the Government issued certain loan notes secured by Matching Fund Revenues (as defined and discussed below) (the “Senior Matching Fund Loan Notes”). Such Senior Matching Fund Loan Notes are secured by a pledge of and lien on Matching Fund Revenues collected on rum produced by Cruzan VIRIL Ltd. (formerly known as V.I. Rum Industries Limited or VIRIL) (“Cruzan”) in the Virgin Islands and exported to the United States. Matching Fund Revenues also will include the Diageo Matching Fund Revenues for all purposes except that the Senior Indenture has been amended and supplemented pursuant to the Third Supplemental Indenture dated as of June 1, 2009, by and between the Authority and the Trustee (the “Third Supplemental Indenture”), to exclude a portion of such Diageo Matching Fund Revenues for purposes of calculating the coverages required to satisfy the Additional Bonds Test (as defined herein) under the Senior Indenture. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS - Amendment of Senior Indenture.” As of June 1, 2009, \$477,815,000 of Senior Bonds were outstanding. The pledge of and lien on Diageo Matching Fund Revenues to pay the Series 2009A Bonds is subordinated to the lien and pledge of such revenues to pay debt service on the Senior Bonds and any additional bonds issued under the Senior Indenture.

The Government will issue its Series 2009A Loan Note in anticipation of the receipt of the Diageo Matching Fund Revenues in an amount in excess of that which is required to pay (i) the principal of, premium, if any and interest due on the Series 2009A Loan Note and (ii) the Senior Matching Fund Loan Notes previously issued to secure the outstanding Senior Bonds. No assurances can be given, however, as to the sufficiency of Matching Fund Revenues for such purposes. Matching Fund Revenues attributed to the excise taxes imposed and collected on rum produced by Cruzan are not available to pay debt service on the Series 2009A Bonds. See “SECURITY AND SOURCE OF PAYMENT OF THE SERIES 2009A BONDS” and “MATCHING FUND REVENUES.”

Matching Fund Revenues

Matching Fund Revenues are those revenues received by the Government from the United States Department of the Treasury (the “Treasury”), through the Secretary of the Interior, as a transfer of federal excise taxes imposed and collected under the Internal Revenue Code of 1986, as amended (the “Code”), in any fiscal year, which commences October 1 of each year (the “Fiscal Year”), on any product produced in the Virgin Islands and exported to the United States which is subject to federal excise tax that qualifies for transfer to the Government (the “Matching Fund Revenues”). Rum is the principal article presently produced in the Virgin Islands and exported to the United States that is subject to federal excise tax which qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code. In accordance with federal law, Matching Fund Revenues have been transferred to the Government every year since 1954. See “MATCHING FUND REVENUES” and “THE RUM INDUSTRY.”

Certain Bondholder Risks

THE PURCHASE AND OWNERSHIP OF THE SERIES 2009A BONDS INVOLVE INVESTMENT RISKS. PROSPECTIVE PURCHASERS OF THE SERIES 2009A BONDS ARE ADVISED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. FOR A DISCUSSION OF CERTAIN RISKS RELATING TO THE SERIES 2009A BONDS, SEE “CERTAIN BONDHOLDER RISKS” HEREIN.

Changes from the Preliminary Official Statement

This Official Statement includes certain information that was not available for inclusion in the Preliminary Official Statement dated June 12, 2009, as supplemented on June 24, 2009, including the amounts, maturities, interest rates, prices, yields and other terms of the Series 2009A Bonds, sources and uses of the proceeds of the Series 2009A Bonds and information regarding the Additional Senior Bonds test and the Series 2009A Debt Service Reserve Requirement. Purchasers of the Series 2009A Bonds should read this Official Statement in its entirety.

Miscellaneous

This Official Statement describes, among other items, the Series 2009A Bonds, the Series 2009A Loan Agreement, the Series 2009A Loan Note, Matching Fund Revenues including the Diageo Matching Fund Revenues, the Diageo Special Escrow Agreement dated as of June 1, 2009 (the “Diageo Special Escrow Agreement”), by and among the Government, the Authority and The Bank of New York Mellon Trust Company, N.A., as Diageo Special Escrow Agent (the “Diageo Special Escrow Agent”), the Subordinated Indenture, the Diageo Project Implementation Agreement, the Authority and the Virgin Islands. It also describes an amendment to the Senior Indenture. The descriptions do not purport to be comprehensive or definitive and reference is made to the Series 2009A Loan Agreement, the Diageo Special Escrow Agreement and the Subordinated Indenture for full and complete statements of the

provisions thereof. Copies of the Subordinated Indenture, the Series 2009A Loan Agreement and the Diageo Special Escrow Agreement, including the form of the Series 2009A Bonds and the Series 2009A Loan Note, are available at the offices of the Trustee, 10161 Centurion Parkway, Jacksonville, Florida 32256 (904-645-1912), and at the offices of the Authority, 32-33 Kongens Gade, Charlotte Amalie, St. Thomas, United States Virgin Islands 00802 (340-714-1635); Attention: Director of Finance and Administration.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Purposes and Powers

The Authority was created in 1988 by United States Virgin Islands Act No. 5365 of the Legislature, as amended, as a public corporation and autonomous governmental instrumentality for the purposes of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under its enabling legislation, the Authority is vested with, but not limited to, the powers to: (i) have perpetual existence as a corporation; (ii) borrow money and issue bonds; (iii) lend the proceeds of its bonds or other money to the Government or any agency, authority or instrumentality thereof or private enterprise in the Virgin Islands subject to the approval of the Legislature; (iv) establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof; (v) encourage economic development through the issuance of special obligations issued to finance projects for the benefit of private parties which special obligations are payable out of revenue generated by such projects and are payable to the Authority by said private party; (vi) invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof; (vii) enter into contracts and agreements with the government of the United States, the Government and any agency, authority or political subdivision thereof; (viii) make, modify and repeal by-laws, rules and regulations; (ix) acquire, sell, lease, mortgage, pledge, dispose of or encumber property or interests therein; and (x) sue and be sued.

Management

The powers of the Authority are exercised by a Board of Directors consisting of seven members. The Governor, the Commissioner of Finance and the Director of the Office of Management and Budget of the Virgin Islands are members and serve ex-officio. The remaining members are appointed by the Governor with the advice and consent of the Legislature and represent the private sector. Of these remaining members, two must be residents of the District of St. Thomas/St. John and two must be residents of the District of St. Croix. These individuals must be experienced in the area of municipal finance. The Governor serves as Chairman of the Board of Directors, the Commissioner of Finance serves as the Authority's Executive Director and the Director of the Office of Management and Budget serves as Secretary to the Authority.

The following is a list of the current Directors with their position or, for private sector representatives, their island of residency, and date of expiration of their current term on the Board of Directors. The Governor of the Virgin Islands, the Commissioner of Finance and the Director of the Office of Management and Budget serve terms that are coterminous with their terms in such offices. The Directors who represent the private sector serve four-year terms. Currently, there is one vacancy on the Board of Directors.

| Name | Government Post or Profession/Residency | Term Expiration |
|--|--|----------------------------|
| The Honorable John P. deJongh, Jr., Chairman | Governor of the Virgin Islands | Ex-officio |
| Angel E. Dawson, Jr. | Commissioner of Finance | Ex-officio |
| Debra E. Gottlieb, Secretary | Director of the Office of Management and Budget | Ex-officio |
| Roy D. Jackson | Certified Public Accountant, St. Thomas | 2001 [†] |
| Pablo O'Neill | Certified Public Accountant, St. Croix | 2013 |
| Keith C. O'Neale, Jr. | Business Owner, St. Croix | 2013 |

[†] Members serve until the appointment and confirmation of a successor.

Julito A. Francis serves as the Director of Finance and Administration of the Authority, the senior management position, and is responsible for the administration and operation of the Authority. The Director of Finance and Administration is appointed by, and serves at the pleasure of, the Board of Directors.

Outstanding Indebtedness of the Authority

Senior Bonds

The Authority previously has issued certain revenue bonds that are secured by and payable from Matching Fund Revenues including the Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Note), Series 1998A (Senior Lien/Refunding) in the principal amount of \$289,075,000, the Series 1998B Bonds (Senior Lien/Refunding/Taxable) in the principal amount of \$26,015,000, the Series 1998C Bonds (Senior Lien/Working Capital) in the principal amount of \$81,170,000, the Series 1998D Bonds (Subordinate Lien/Working Capital) in the principal amount of \$39,130,000 and the Series 1998E Bonds (Subordinate Lien/Capital Program) in the principal amount of \$106,430,000, as well as the Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2004A, in the principal amount of \$94,000,000 (collectively, the "Senior Bonds"). As of June 1, 2009, \$477,815,000 of the Senior Bonds were outstanding. Such Senior Bonds have a lien on Matching Fund Revenues, including the Diageo Matching Fund Revenues, that is superior to the lien securing of all bonds issued pursuant to the Subordinated Indenture. The Authority plans to issue additional Senior Bonds to provide funds to pay the cost of certain capital projects and/or working capital expenditures of the Government.

Separately Secured Bonds and Obligations

Gross Receipts Taxes Bonds and Notes. The Authority also has issued revenue bonds secured by and payable from Gross Receipts Taxes including \$299,880,000 principal amount of Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 1999A, \$268,020,000 principal amount of Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2003A, and \$219,490,000 principal amount of Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2006 (collectively, the "Gross Receipts Taxes Bonds"). In addition, the Authority has issued \$6,350,000 principal amount of Subordinate Lien Revenue Notes (Virgin Islands Gross Receipts Taxes Loan Note), Series 2005, \$4,000,000 principal amount of Subordinated Lien Revenue Notes (Virgin Islands Gross Receipts Taxes Loan Note), Series 2006, and \$7,650,000 principal amount of Subordinated Lien Revenue Notes (Virgin Island Gross Receipts Taxes Loan Note), Series 2008A (collectively, the "Gross Receipts Taxes Notes"). The Gross Receipts Taxes Bonds and the Gross Receipts Taxes Notes were issued pursuant to and secured under an Indenture of Trust dated as of November 1, 1999, by and between the Authority and The Bank of New York, as previously supplemented and amended (the "Gross Receipts Taxes Indenture").

Each Series of the Gross Receipts Taxes Bonds and the Gross Receipts Taxes Notes is secured, on a parity basis, by the Gross Receipts Taxes Loan Notes issued by the Government, which are payable primarily from Gross Receipts Taxes imposed and collected by the Government from individuals and entities doing business in the Virgin Islands. The Gross Receipts Taxes Loan Notes constitute general obligations of the Government secured by the full faith and taxing power of the Government. The Gross Receipts Taxes Notes and the security pledged therefor are subject and subordinate to the prior payment of the Gross Receipts Taxes Bonds. The Authority plans to issue additional bonds under the Gross Receipts Taxes Indenture to provide funds to pay the cost of certain capital projects and/or working capital expenditures of the Government. As of June 1, 2009, \$567,235,000 of the Gross Receipts Taxes Bonds and \$6,099,128 of the Gross Receipts Taxes Notes were outstanding.

Highway Bonds. The Authority has issued \$20,845,000 aggregate principal amount of Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note), Series 2002 (the “Highway Bonds”). The Highway Bonds are secured by and payable from monies derived from the United States Federal Highway Administration. The Highway Bonds mature in the years 2004 through 2013. As of June 1, 2009, \$3,475,000 of the Highway Bonds were outstanding.

HOVENSA Bonds. In each of 2002, 2003, 2004 and 2007, the Authority issued a series of 30-year private activity bonds in the aggregate principal amount of \$355,683,000 on behalf of HOVENSA, SA, an oil refinery located on the island of St. Croix (the “HOVENSA Bonds”). HOVENSA, SA is solely responsible for the payment of debt service on the HOVENSA Bonds. As of June 1, 2009, \$355,683,000 of the HOVENSA Bonds were outstanding.

WICO Guaranty. On November 20, 2002, the Authority executed an Unlimited Continuing Guaranty in favor of Banco Popular de Puerto Rico (“Banco Popular”), pursuant to which the Authority agreed to unconditionally guarantee any and all indebtedness of The West Indian Company Limited (“WICO”), a wholly owned subsidiary of the Authority, to Banco Popular. As used in the Unlimited Continuing Guaranty, the term indebtedness includes, but is not limited to, the \$23,600,000 loan from Banco Popular to WICO, which loan represents a consolidation of prior indebtedness of both the Authority and WICO to Banco Popular and any modifications, amendments or refinancings thereof. The WICO Guaranty constitutes a direct and general obligation of the Authority. As of June 1, 2009, outstanding principal and interest on the underlying indebtedness guaranteed by the Authority pursuant to the Unlimited Continuing Guaranty aggregated \$23,262,016.

For a listing of the Authority’s bonds and similar obligations outstanding as of June 1, 2009, see APPENDIX A—“Information Regarding the United States Virgin Islands—Outstanding Indebtedness of the Government.”

THE SERIES 2009A BONDS

General

The Series 2009A Bonds will be dated their date of delivery, and will bear interest at the rates and will mature on the dates set forth on the inside cover of this Official Statement. Interest on the Series 2009A Bonds will be payable on April 1 and October 1, commencing on October 1, 2009. The Series 2009A Bonds are subject to redemption at the times and in the manner set forth in “THE SERIES 2009A BONDS - Redemption.” Pursuant to the Subordinated Indenture, the Authority has appointed the Trustee as the Paying Agent and Registrar. Interest on the Series 2009A Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable to Cede & Co., or such other owner of record as shown in the registration books of the Authority maintained by the Paying Agent as Registrar. The Series 2009A Bonds will be available initially in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, in book-entry only form as described below. If the Authority in the future obtains a policy of municipal bond insurance with respect to the Series 2009A Bonds or an investment grade rating from one or more Rating Agencies on the Series 2009A Bonds, the Subordinated Indenture provides that such bonds may be re-offered in minimum denominations of \$5,000 and integral multiples in excess thereof.

Authorization and Purpose

The Series 2009A Bonds will be issued pursuant to, and secured by, the Subordinated Indenture and pursuant to Virgin Islands law. Proceeds of the Series 2009A Bonds will be used to (i) make a loan to the Government to provide a grant to Diageo USVI to finance the acquisition, design, construction, development and equipping of a rum production and maturation warehouse facility, and any improvements thereto, to be located on St. Croix, (ii) pay in full the principal and interest due on the Series 2009A Bond Anticipation Notes, (iii) pay capitalized interest on the Series 2009A Bonds, (iv) make a deposit to the Series 2009A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2009A Debt Service Reserve Requirement and (v) pay the costs of issuing the Series 2009A Bonds.

Senior/Second Lien Structure

The Subordinated Indenture pursuant to which the Series 2009A Bonds are being issued provides that bonds may be issued on a senior basis (the “Senior Lien Subordinated Bonds”) or on a second lien basis (the “Second Lien Bonds”) pursuant to a Supplemental Subordinated Indenture. See APPENDIX E – “Summary of Certain Provisions of the Subordinated Indenture and the Diageo Special Escrow Agreement.” The Series 2009A Bonds are Senior Lien Bonds under the Subordinated Indenture and the Second Supplemental Subordinated Indenture.

Book-Entry Only System

The Depository Trust Company (“DTC”) will act as securities depository for the Series 2009A Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2009A Bonds, and will be deposited with DTC. For more information regarding the book-entry only system, see APPENDIX H – “DTC Book-Entry Only System.”

Redemption

Optional Redemption. The Series 2009A Bonds maturing on or after October 1, 2020, shall be subject to redemption at the option of the Authority prior to their stated maturities, on or after October 1, 2019, in whole or in part, at any time in such order of maturity as the Authority shall determine, and otherwise by lot within a maturity, from any funds available therefor, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued on the principal amount redeemed to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Series 2009A Bonds in the principal amount of \$8,330,000 maturing on October 1, 2014, are required to be redeemed prior to maturity in part in accordance with the sinking fund requirements of the Subordinated Indenture upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date on October 1 in the years and amounts, as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2013 | \$4,040,000 | 2014* | \$4,290,000 |

* Final Maturity

The Series 2009A Bonds in the principal amount of \$26,290,000 maturing on October 1, 2019, are required to be redeemed prior to maturity in part in accordance with the sinking fund requirements of the Subordinated Indenture upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date on October 1 in the years and amounts, as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2015 | \$4,575,000 | 2018 | \$5,600,000 |
| 2016 | 4,890,000 | 2019* | 5,990,000 |
| 2017 | 5,235,000 | | |

* Final Maturity

The Series 2009A Bonds in the principal amount of \$87,880,000 maturing on October 1, 2029, are required to be redeemed prior to maturity in part in accordance with the sinking fund requirements of the Subordinated Indenture upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date on October 1 in the years and amounts, as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2020 | \$6,405,000 | 2025 | \$8,920,000 |
| 2021 | 6,845,000 | 2026 | 9,530,000 |
| 2022 | 7,315,000 | 2027 | 10,185,000 |
| 2023 | 7,815,000 | 2028 | 10,885,000 |
| 2024 | 8,350,000 | 2029* | 11,630,000 |

* Final Maturity

The Series 2009A Bonds in the principal amount of \$127,500,000 maturing on October 1, 2037, are required to be redeemed prior to maturity in part in accordance with the sinking fund requirements of the Subordinated Indenture upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date on October 1 in the years and amounts, as follows:

| <u>Year</u> | <u>Amount</u> | <u>Year</u> | <u>Amount</u> |
|-------------|---------------|-------------|---------------|
| 2030 | \$12,435,000 | 2034 | \$16,290,000 |
| 2031 | 13,305,000 | 2035 | 17,425,000 |
| 2032 | 14,230,000 | 2036 | 18,645,000 |
| 2033 | 15,225,000 | 2037* | 19,945,000 |

* Final Maturity

Selection; Notice of Redemption

In the event of any redemption of less than all of any Series 2009A Bonds, portions of a maturity to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any of the Series 2009A Bonds of a denomination greater than \$100,000 to be redeemed shall be in the principal amount of \$100,000, or an integral multiple of \$5,000 in excess thereof. In selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of \$100,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$100,000; provided, however, notwithstanding the foregoing, the Trustee shall revise the Bonds or portions thereof to be redeemed as determined by the foregoing, in any manner deemed by the Trustee in its sole judgment to be fair and reasonable, so that no Bond Outstanding following any redemption shall be in a principal amount less than an authorized denomination therefor. Notice of any such redemption will be mailed by the Trustee not more than 60 nor less than 30 days prior to the date fixed for the redemption thereof, to each registered holder of the Series 2009A Bonds selected for redemption. The Authority, so long as a book-entry only method is used for the Series 2009A Bonds, will send any such notice of redemption only to DTC.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS

General

Pursuant to the Subordinated Indenture, the Series 2009A Bonds are secured by the Diageo Trust Estate which includes: (i) all amounts deposited or required to be deposited in the Diageo Pledged Revenue Account, the Diageo Senior Lien Debt Service Account, the Senior Lien Debt Service Reserve Account and the Construction Account created under the Subordinated Indenture; (ii) the Series 2009A Loan Note, and the proceeds and collections therefrom; (iii) all of the Authority's right and title to, and interest in the Series 2009A Loan Agreement; (iv) all of the Authority's right and title to, and interest in, the Diageo Matching Fund Revenues; (v) all of the Authority's right and title to, and interest in, the proceeds from the sale of Series 2009A Bonds required to be deposited in the Series 2009A Construction Subaccounts pursuant to the provisions of the Subordinated Indenture (except as limited below) and all right and title to, and interest in, the investments held in the Series 2009A Construction Accounts (except as limited in the Subordinated Indenture) pursuant to the provisions of the Subordinated Indenture; and (vi) any and all other property or security interest therein, of every name and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, transferred, mortgaged, pledged and assigned as and for additional security under the Subordinated Indenture.

THE SUBORDINATED INDENTURE PERMITS THE ISSUANCE OF ADDITIONAL SUBORDINATED BONDS ON A PARITY WITH OR SUBORDINATE TO THE SERIES 2009A BONDS. THE SERIES 2009A BONDS ARE LIMITED AND SPECIAL OBLIGATIONS OF THE AUTHORITY. PRINCIPAL, PREMIUM, IF ANY AND INTEREST ON THE SERIES 2009A BONDS ARE PAYABLE SOLELY FROM THE PROCEEDS OF REPAYMENT OF THE SERIES 2009A LOAN NOTE AND OTHER AMOUNTS PLEDGED PURSUANT TO THE SUBORDINATED INDENTURE AS DESCRIBED HEREIN.

THE SERIES 2009A BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY, OF DIAGEO USVI, OF THE GOVERNMENT OR OF THE UNITED STATES OF AMERICA. THE AUTHORITY HAS NO TAXING POWER. THE DIAGEO MATCHING FUND REVENUES PLEDGED TO PAY DEBT SERVICE ON THE SERIES 2009A BONDS ARE DERIVED FROM THE SERIES 2009A LOAN NOTE WHICH IS A SPECIAL LIMITED OBLIGATION OF THE GOVERNMENT. THE TAXING POWER OF THE GOVERNMENT IS NOT PLEDGED FOR THE SERIES 2009A LOAN NOTE OR THE SERIES 2009A BONDS. THE SERIES 2009A LOAN NOTE IS SECURED SOLELY BY A PLEDGE OF THE DIAGEO MATCHING FUND REVENUES. SUCH PLEDGE OF THE DIAGEO MATCHING FUND REVENUES TO THE SERIES 2009A LOAN NOTE AND THE PRIOR MATCHING FUND LOAN NOTES IS SUBJECT TO A PRIOR PLEDGE TO SECURE THE SENIOR BONDS. THE SERIES 2009A LOAN NOTE DOES NOT CONSTITUTE A GENERAL OBLIGATION OF THE UNITED STATES OF AMERICA, NOR SHALL THE UNITED STATES OF AMERICA BE LIABLE THEREON.

Amendment of Senior Indenture

In connection with the issuance of the Series 2009A Bonds, the Authority and the Trustee have executed the Third Supplemental Indenture, which amends provisions of the Senior Indenture to provide that in calculating coverage for purposes of the tests for issuance of additional Senior Bonds or Subordinated Bonds under the Senior Indenture, the Independent Verification Analyst shall exclude from such calculation of the coverage required to satisfy the Additional Bonds Test (described below) the amount of Diageo Matching Fund Revenues certified by the Calculation Agent (as defined herein) as being required to satisfy the payment obligations of the Authority under the Subordinated Indenture and other payment obligations of the Government under the Diageo Agreement. The Additional Bonds

Test under the Senior Indenture, as amended by the Third Supplemental Indenture, is calculated as follows:

Additional Senior Bonds may be issued if the conditions set forth in the Senior Indenture are met, including that (i) the average Matching Fund Revenues received by the Government for the immediately preceding three Fiscal Years prior to the issuance of such Additional Senior Bonds equaled or exceeded 150% of the amount of maximum annual Adjusted Debt Service Requirement (including such proposed Additional Bonds) in the current or any subsequent Bond Year, (ii) the average Matching Fund Revenues projected to be received by the Government in the next succeeding two Fiscal Years following the issuance of the Additional Bonds, without regard to the projected Diageo Incremental Cover Over Revenues, as certified by the Calculation Agent, are equal to or exceed 150% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Bonds and such additional Senior Bonds, and (iii) the average Matching Fund Revenues projected to be received by the Government for the next succeeding two Fiscal Years following the issuance of the additional Senior Bonds, without regard to the projected Diageo Incremental Cover Over Revenues, as certified by the Calculation Agent, are equal to or exceed 120% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds, such Additional Senior Bonds and Outstanding Second Lien Bonds.

Additional Subordinate Bonds may be issued under the Senior Indenture if the conditions set forth in the Senior Indenture are met, including that (i) the average Matching Fund Revenues received by the Government for the immediately preceding three Fiscal Years available after payment of Debt Service on Outstanding Senior Bonds and any Senior Bonds to be issued simultaneously with such additional Subordinate Bonds (the "Available Matching Fund Revenues") equaled or exceeded 125% of the amount of maximum Adjusted Debt Service Requirement in the current or any subsequent Bond Year; (ii) the average Available Matching Fund Revenues projected to be received by the Government in the next succeeding two Fiscal Years following the issuance of the additional Subordinate Bonds, without regard to the projected Diageo Incremental Cover Over Revenues, as certified by the Calculation Agent, are equal to or exceed 125% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Subordinate Bonds and such additional Subordinate Bonds; and (iii) the average Matching Fund Revenues projected to be received by the Government for the next succeeding two Fiscal Years following issuance of the additional Subordinate Bonds, without regard to the projected Diageo Incremental Cover Over Revenues, as certified by the Calculation Agent, are equal to or exceed 120% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Subordinate Bonds, such additional Subordinate Lien Bonds and Outstanding Senior Bonds.

Series 2009A Loan Agreement and Series 2009A Loan Note

Under the Series 2009A Loan Agreement, the Authority will lend to the Government the sum of \$250,000,000, which will be evidenced by the Series 2009A Loan Note. Pursuant to the Series 2009A Loan Agreement, the Government pledges and assigns its interest in the Diageo Matching Fund Revenues and the Diageo Special Escrow Agreement to the Trustee as security for the payment of the Series 2009A Loan Note. The Government has notified the Department of the Interior, Office of Insular Affairs ("DOI"), of the assignment and has instructed the DOI to transmit all Matching Fund Revenues to the Special Escrow Agent. See "MATCHING FUND REVENUES" for a description of the process of collection and remittance of Matching Fund Revenues to the Government. The Government is obligated to repay the Authority, pursuant to the Series 2009A Loan Note, in annual installments in accordance with a principal maturity schedule corresponding to the Series 2009A Bonds. The Series 2009A Loan Note shall bear interest from the issue date payable annually immediately upon receipt of the Diageo Matching Fund Revenues from the Diageo Special Escrow Agent, but in no event later than the second Business Day preceding April 1 and October 1 of each year, commencing the second Business Day next preceding

April 1, 2009, and ending on the second Business Day next preceding the final maturity of the Series 2009A Loan Note. Amounts on deposit in the Series 2009A Senior Lien Capitalized Interest Account will be applied to the pay interest due on the Series 2009A Bonds from July 9, 2009, through October 1, 2011. The Series 2009A Loan Note may, at the option of the Government, be redeemed, in whole or in part, prior to its maturity at the times, in the manner of and of the same maturities as an optional redemption of the Series 2009A Bonds and at a redemption price equal to the Series 2009A Bonds, pursuant to the terms of the Subordinated Indenture.

The Government has covenanted to the extent permitted by law in the Series 2009A Loan Agreement, among other things, to defend, preserve and protect the pledge of the Diageo Matching Fund Revenues and to request that the United States deliver and take all steps necessary to ensure the receipt, and the maximization, of the Matching Fund Revenues, including Diageo Matching Fund Revenues, to be received pursuant to Section 28(b) of the Revised Organic Act. The Government has further covenanted not to take any action or fail to take any actions that would in any way impair the Government's right to receive the maximum amount of Matching Fund Revenues to which it may be entitled. In the event that the federal government discontinues the payment of Matching Fund Revenues to the Government and substitutes another stream of revenues in lieu thereof (the "Substitute Revenues"), the Government covenants to use its best efforts to pledge such Substitute Revenues to repayment of the Series 2009A Loan Note. The Government also has covenanted to include in each annual operating budget of the Government submitted to the Legislature an appropriation for the molasses subsidy with respect to the Senior Bonds and the Cruzan facility, as authorized by law, and to use its best efforts to ensure appropriation by the Legislature of an amount sufficient to satisfy the rum producers' projected subsidy requirement for each Fiscal Year and to comply with terms of the Diageo Agreement to fund the Molasses Subsidy with respect of the Diageo Project. See "THE RUM INDUSTRY."

The Authority also has covenanted in the Series 2009A Loan Agreement to use its best efforts to cause the Government to comply with the terms and the covenants set forth in the Series 2009A Loan Agreement.

Special Escrow Agreement/Diageo Special Escrow Agreement

The Government, the Authority and The Bank of New York Mellon Trust Company, N.A., as Special Escrow Agent, have entered into a Special Escrow Agreement dated as of May 1, 1998, as previously amended and supplemented (the "Special Escrow Agreement") which provides for the deposit of Matching Fund Revenues into the Special Escrow Account and payment of Debt Service payments on all Senior Bonds outstanding under the Senior Indenture due in the next Fiscal Year, and the funding of any deficiencies in the Senior Bond Debt Service Reserve Account prior to transfer of any excess Matching Fund Revenues to the Government for other uses.

In connection with the issuance of the Series 2009A Bonds, the Government, the Authority and the Diageo Special Escrow Agent will enter into the Diageo Special Escrow Agreement, pursuant to which Diageo Matching Fund Revenues not required to satisfy any payment obligations related to the Senior Bonds shall be transferred by the Special Escrow Agent to the Diageo Special Escrow Agent, as certified by the Calculation Agent, and used to pay debt service on the Series 2009A Bonds and to make other payments required pursuant to the Diageo Agreement between the Government and Diageo USVI, as described in "THE DIAGEO AGREEMENT." See APPENDIX E – "Summary of Certain Provisions of the Subordinated Indenture and the Diageo Special Escrow Agreement."

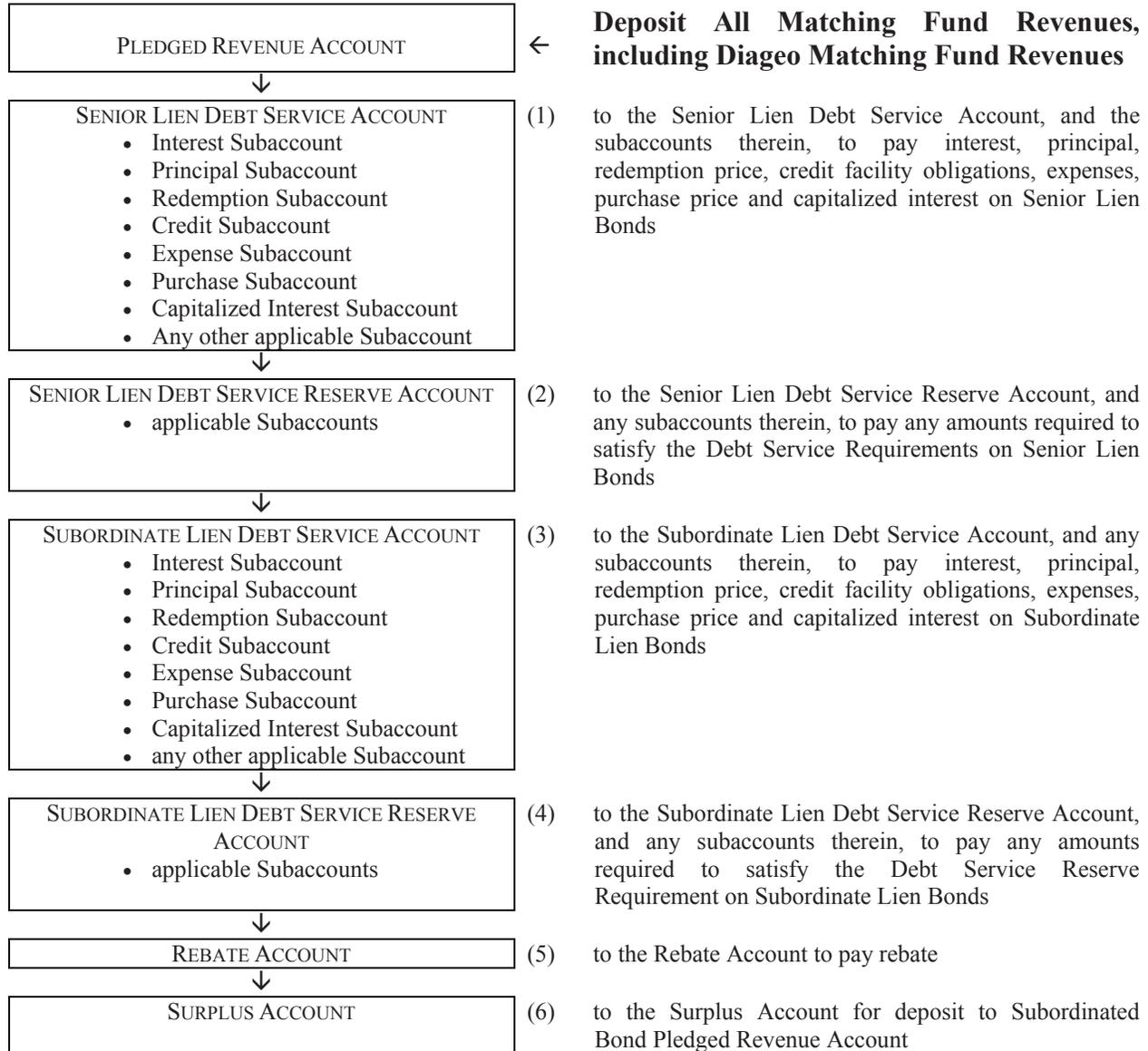
Flow of Funds

Historically, Matching Fund Revenues collected by the Treasury on rum exported to the United States have been transferred through DOI to the Government. At the direction of the Government and in accordance with the provisions of the Special Escrow Agreement, the Matching Fund Revenues are deposited into the Special Escrow Account held by the Special Escrow Agent and applied to make payments in accordance with the Senior Indenture. After satisfaction of all payments required with respect to the Senior Bonds, excess Matching Fund Revenues in the Surplus Account are released to the Government. See “MATCHING FUND REVENUES – General.”

In connection with the issuance of the Series 2009A Bonds, in accordance with the Diageo Agreement and pursuant to the terms of the Diageo Special Escrow Agreement and the Diageo Project Implementation Agreement, the Government, the Authority and Diageo USVI have agreed to appoint, on or before the third anniversary of the date of issuance of the Series 2009A Bonds, a calculation agent (the “Calculation Agent”), who shall be an independent certified public accounting firm for the purposes of performing the necessary calculations required pursuant to the Diageo Agreement, the Diageo Special Escrow Agreement, the Diageo Project Implementation Agreement and the Subordinated Indenture. As long as any Subordinated Bonds are outstanding, the Calculation Agent annually will (i) review the records provided by Diageo USVI and by Cruzan with respect to their respective exports of rum to the United States, (ii) review the amount of Matching Fund Revenues received by the Government from the Treasury, (iii) calculate the amount of the Matching Fund Revenues derived from export of Captain Morgan or other rum produced by Diageo USVI which constitute Diageo Matching Fund Revenues, (iv) evaluate the amount of Matching Fund Revenues necessary to make all required payments of debt service and deposits to any funds or accounts under the Senior Indenture, (v) calculate the amount of Diageo Matching Fund Revenues that may be required to help satisfy any amounts due under the Senior Indenture and (vi) calculate the amount of Diageo Matching Fund Revenues that are to be deposited with the Diageo Special Escrow Agent for transfer to the Diageo Pledged Revenue Account and applied in accordance with the Subordinated Indenture. In the event of any dispute as to the calculations certified to by the Calculation Agent for purposes of the Diageo Agreement, the Diageo Special Escrow Agreement, the Diageo Project Implementation Agreement and the Subordinated Indenture, the provisions of the Diageo Agreement shall govern.

Pursuant to the Senior Indenture, Matching Fund Revenues are deposited into the Pledged Revenue Account and then applied as set forth on the next page.

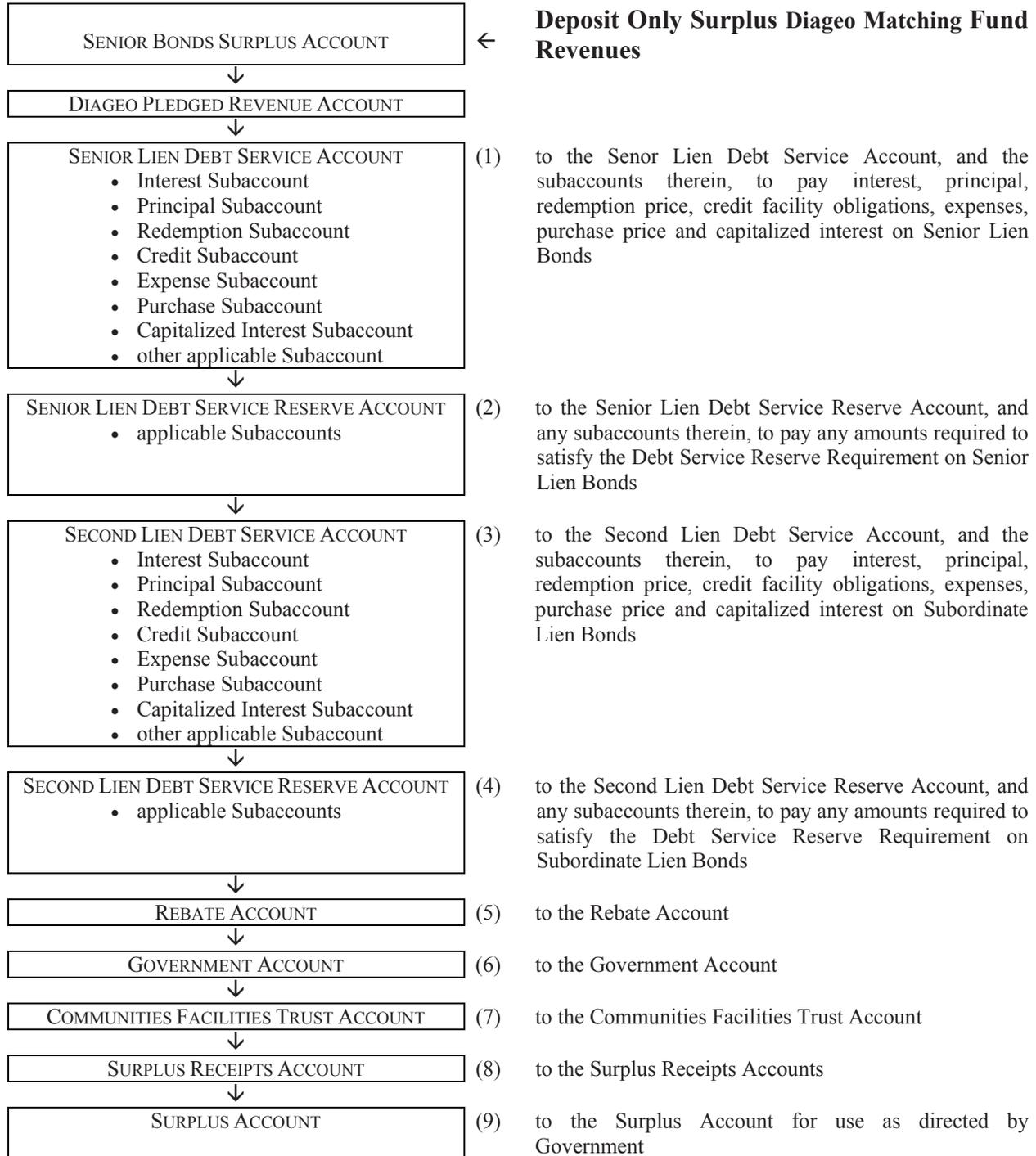
Flow of Matching Fund Revenues - Senior Bonds



Amounts in the Surplus Account may be (i) transferred to the Debt Service Accounts and the Debt Service Reserve Accounts to maintain the required balances if no other funds are available for such purposes, (ii) transferred to the Construction Account to pay cost of approved projects and (iii) used for any other purpose as directed by the Authority or authorized by law.

In connection with the issuance of the Series 2009A Bonds, amounts in the Senior Bonds Surplus Account equal to the Diageo Matching Fund Revenues, after payment of all amounts required under the Senior Indenture, as certified by the Calculation Agent, will be transferred to the Diageo Special Escrow Agent who will deposit such amounts into the Diageo Pledged Revenue Account and apply such amounts as follows:

Flow of Diageo Matching Fund Revenues - Subordinated Bonds



Amounts in the Rebate, Government, Communities Facilities Trust, Surplus Receipts and Surplus Accounts are not pledged to the holders of the Series 2009A Bonds and may be used by the Authority, the Government or Diageo USVI, as applicable, for any lawful purpose.

Debt Service Reserve Account

In connection with the issuance of the Series 2009A Bonds, the Trustee shall fund the Series 2009A Senior Lien Debt Service Reserve Subaccount with a deposit from the proceeds of the Series 2009A Bonds in an amount equal to the Series 2009A Debt Service Reserve Requirement established in the Second Supplemental Subordinated Indenture. A valuation of the Series 2009A Senior Lien Debt Service Reserve Subaccount shall be made on September 1 in each year pursuant to the Subordinated Indenture. In the event the amount on deposit in the Series 2009A Senior Lien Debt Service Reserve Subaccount is less than the Series 2009A Debt Service Reserve Requirement because of any valuation of the investment securities or due to a payment made from the Series 2009A Senior Lien Debt Service Reserve Subaccount to cure an insufficiency of funds on any Interest Payment Date or Principal Payment Date, the Authority is required to restore the deficiency caused thereby by transfers of Diageo Matching Fund Revenues as described below. The Trustee shall notify the Authority and the Diageo Special Escrow Agent of the amount of the deficiency or excess, if any, in the Series 2009A Senior Lien Debt Service Reserve Subaccount.

No later than the second Business Day preceding the first day of the next Bond Year (which is defined in the Subordinated Indenture as the Fiscal Year) (after the transfers, if any, to the Series 2009A Senior Lien Debt Service Reserve Subaccount pursuant to the Subordinated Indenture), the Authority shall transfer or provide for the transfer to the Trustee for deposit in the Series 2009A Senior Lien Debt Service Reserve Subaccount an amount not exceeding the aggregate amount necessary, together with the amounts already on deposit in the Series 2009A Senior Lien Debt Service Reserve Subaccount to make the amounts on deposit in the Series 2009A Senior Lien Debt Service Reserve Subaccount equal to the Series 2009A Debt Service Reserve Requirement, from Diageo Matching Fund Revenues then on deposit in the Diageo Special Escrow Fund established under the Diageo Special Escrow Agreement with respect to the Senior Lien Debt Service Reserve Account and the Second Lien Debt Service Reserve Account, respectively. The Trustee shall send written direction to the Special Escrow Agent (with a copy to the Authority) to transfer such amount, to the extent available after transfer pursuant to the Subordinated Indenture, from the Subordinated Special Escrow Fund established under the Special Escrow Agreement.

The Series 2009A Debt Service Reserve Requirement shall mean an amount equal to the least of (i) the maximum principal and interest due on the Series 2009A Bonds in the current or any future Fiscal Year, (ii) 10% of the original stated principal amount of the 2009A Bonds (or 10% of the issue price of the Series 2009A Bonds if required by the Code) or (iii) 125% of the average annual principal and interest due on the Series 2009A Bonds in the current and each future Fiscal Year, but in no event more than 10% of the original stated principal amount of the Series 2009A Bonds (or 10% of the issue price of the Series 2009A Bonds if required by the Code). The Series 2009A Debt Service Reserve Requirement is equal to \$20,623,468.75, which was calculated based on the maximum principal and interest due on the Series 2009A Bonds in the current or any future Fiscal Year.

Additional Bonds

All of the Bonds issued under a Supplemental Subordinated Indenture shall collectively be a charge and lien upon the Diageo Trust Estate as provided in the Subordinated Indenture and such charge and lien shall be prior to any other charge and lien upon the Diageo Trust Estate. Except as permitted in the Subordinated Indenture, no obligations payable from Diageo Matching Fund Revenues or secured by a lien on the Diageo Trust Estate (except as to any Credit Facility or Liquidity Facility which secures Bonds or a specific Series of Bonds) shall be hereafter issued.

So long as no Event of Default has occurred and is continuing, the Authority may from time to time enter into a Supplemental Subordinated Indenture providing for the issuance of Additional Bonds pursuant to the Subordinated Indenture which Additional Bonds will be on a parity with other Bonds issued under the Subordinated Indenture.

Such Additional Bonds may be issued for any purpose for which bonds or other obligations may be now or hereafter issued in connection with the Diageo Project as provided under the Act or as otherwise permitted under the laws of the Virgin Islands. Any such Additional Bonds may bear interest at any rate lawful at the time of the issuance thereof and may mature over any period of time not exceeding the maximum maturity permitted by law and may provide for such other payment terms and conditions as the Authority shall determine in a Supplemental Subordinated Indenture. It is understood and agreed that any Additional Bonds shall be given a designation by year, alphabetical letter or other identifying language or symbol differentiating such Additional Bonds from other Bonds then Outstanding as provided in the Supplemental Subordinated Indenture authorizing the issuance thereof.

Pursuant to the Subordinated Indenture, Additional Bonds may be issued to complete the Diageo Project without regard to either of the coverage requirements set forth above, provided that the Authority is required to deliver a certificate (i) describing the improvements to be completed, (ii) stating that the proceeds of such Additional Bonds in an amount not to exceed \$25,000,000, together with other available funds of the Authority are expected to be sufficient to complete the Diageo Project or to pay the costs of additional improvements and (iii) setting forth the period of time required for completion of the Diageo Project.

The Authority has the right to issue other bonds, notes or other evidences of indebtedness that are not secured by the Subordinated Indenture and are not secured by a pledge of Diageo Matching Fund Revenues, including the issuance of additional bonds under the Senior Indenture.

SOURCES AND USES OF FUNDS

Proceeds of the Series 2009A Bonds will be used by the Authority to (i) make a loan to the Government which will provide a grant to Diageo USVI to finance the costs of the Diageo Project, (ii) pay in full the principal and interest due on the Series 2009A Bond Anticipation Notes, (iii) pay capitalized interest on the Series 2009A Bonds, (iv) fund the Series 2009A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2009A Debt Service Reserve Requirement and (v) pay the costs of issuing the Series 2009A Bonds.

The estimated sources and uses of the proceeds of the Series 2009A Bonds are expected to be as follows:

SOURCES OF FUNDS

| | |
|-----------------------------|----------------------|
| Par Amount | \$250,000,000 |
| Net Original Issue Discount | (2,506,456) |
| Total Sources | <u>\$247,493,544</u> |

USES OF FUNDS

| | |
|---|----------------------|
| Deposit to Series 2009A Project Account | \$153,792,711 |
| Deposit to Series 2009A Bond Anticipation Notes Redemption Account | 29,625,609 |
| Deposit to Series 2009A Senior Lien Debt Service Reserve Subaccount | 20,623,469 |
| Capitalized Interest | 36,503,651 |
| Costs of Issuance ¹ | 6,948,105 |
| Total Uses ² | <u>\$247,493,544</u> |

¹ The Costs of Issuance of the Series 2009A Bonds include legal fees, Trustee fees, financial advisor fees, Underwriters' discount and other costs incurred in connection with the issuance of the Series 2009A Bonds.

² Totals may not add due to rounding.

DEBT SERVICE REQUIREMENTS

The table below sets forth the debt service on all Outstanding Bonds of the Authority and the Series 2009A Bonds.

| Fiscal Year (September 30) | Outstanding Senior Bonds | Outstanding Subordinate Bonds | Total Outstanding Bonds | Series 2009A Bonds | | | Total Debt |
|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------|----------------------|----------------------|----------------------|------------------------|
| | Debt Service | Debt Service | Debt Service | Principal | Interest | Total | Service |
| 2009 | \$36,248,531 | \$11,323,431 | \$47,571,963 | - | - | - | \$47,571,963 |
| 2010 | 36,241,134 | 11,452,313 | 47,693,446 | - | \$12,155,836 | \$12,155,836 | 59,849,282 |
| 2011 | 36,238,039 | 11,455,775 | 47,693,814 | - | 16,702,675 | 16,702,675 | 64,396,489 |
| 2012 | 36,231,209 | 11,455,406 | 47,686,615 | - | 16,702,675 | 16,702,675 | 64,389,290 |
| 2013 | 36,224,579 | 11,455,200 | 47,679,779 | - | 16,702,675 | 16,702,675 | 64,382,454 |
| 2014 | 36,222,831 | 11,454,006 | 47,676,838 | \$ 4,040,000 | 16,581,475 | 20,621,475 | 68,298,313 |
| 2015 | 36,219,056 | 11,290,922 | 47,509,978 | 4,290,000 | 16,331,575 | 20,621,575 | 68,131,553 |
| 2016 | 36,206,775 | 11,454,397 | 47,661,172 | 4,575,000 | 16,048,469 | 20,623,469 | 68,284,641 |
| 2017 | 36,197,050 | 11,350,259 | 47,547,309 | 4,890,000 | 15,729,025 | 20,619,025 | 68,166,334 |
| 2018 | 36,191,306 | 11,342,034 | 47,533,341 | 5,235,000 | 15,387,306 | 20,622,306 | 68,155,647 |
| 2019 | 36,185,456 | 11,325,609 | 47,511,066 | 5,600,000 | 15,021,625 | 20,621,625 | 68,132,691 |
| 2020 | 36,180,275 | 11,163,000 | 47,343,275 | 5,990,000 | 14,630,463 | 20,620,463 | 67,963,738 |
| 2021 | 36,166,531 | 9,992,650 | 46,159,181 | 6,405,000 | 14,216,134 | 20,621,134 | 66,780,315 |
| 2022 | 36,159,588 | 11,455,150 | 47,614,738 | 6,845,000 | 13,777,228 | 20,622,228 | 68,236,966 |
| 2023 | 19,957,275 | 8,425,400 | 28,382,675 | 7,315,000 | 13,308,178 | 20,623,178 | 49,005,853 |
| 2024 | 11,298,822 | - | 11,298,822 | 7,815,000 | 12,806,997 | 20,621,997 | 31,920,819 |
| 2025 | 36,069,772 | - | 36,069,772 | 8,350,000 | 12,271,531 | 20,621,531 | 56,691,303 |
| 2026 | 9,422,766 | - | 9,422,766 | 8,920,000 | 11,699,463 | 20,619,463 | 30,042,229 |
| 2027 | - | - | - | 9,530,000 | 11,088,306 | 20,618,306 | 20,618,306 |
| 2028 | - | - | - | 10,185,000 | 10,435,247 | 20,620,247 | 20,620,247 |
| 2029 | - | - | - | 10,885,000 | 9,737,303 | 20,622,303 | 20,622,303 |
| 2030 | - | - | - | 11,630,000 | 8,991,494 | 20,621,494 | 20,621,494 |
| 2031 | - | - | - | 12,435,000 | 8,186,569 | 20,621,569 | 20,621,569 |
| 2032 | - | - | - | 13,305,000 | 7,317,844 | 20,622,844 | 20,622,844 |
| 2033 | - | - | - | 14,230,000 | 6,388,538 | 20,618,538 | 20,618,538 |
| 2034 | - | - | - | 15,225,000 | 5,394,431 | 20,619,431 | 20,619,431 |
| 2035 | - | - | - | 16,290,000 | 4,330,800 | 20,620,800 | 20,620,800 |
| 2036 | - | - | - | 17,425,000 | 3,192,919 | 20,617,919 | 20,617,919 |
| 2037 | - | - | - | 18,645,000 | 1,975,556 | 20,620,556 | 20,620,556 |
| 2038 | - | - | - | 19,945,000 | 673,144 | 20,618,144 | 20,618,144 |
| Total ¹ | <u>\$583,660,995</u> | <u>\$166,395,552</u> | <u>\$750,056,550</u> | <u>\$250,000,000</u> | <u>\$327,785,479</u> | <u>\$577,785,479</u> | <u>\$1,327,842,029</u> |

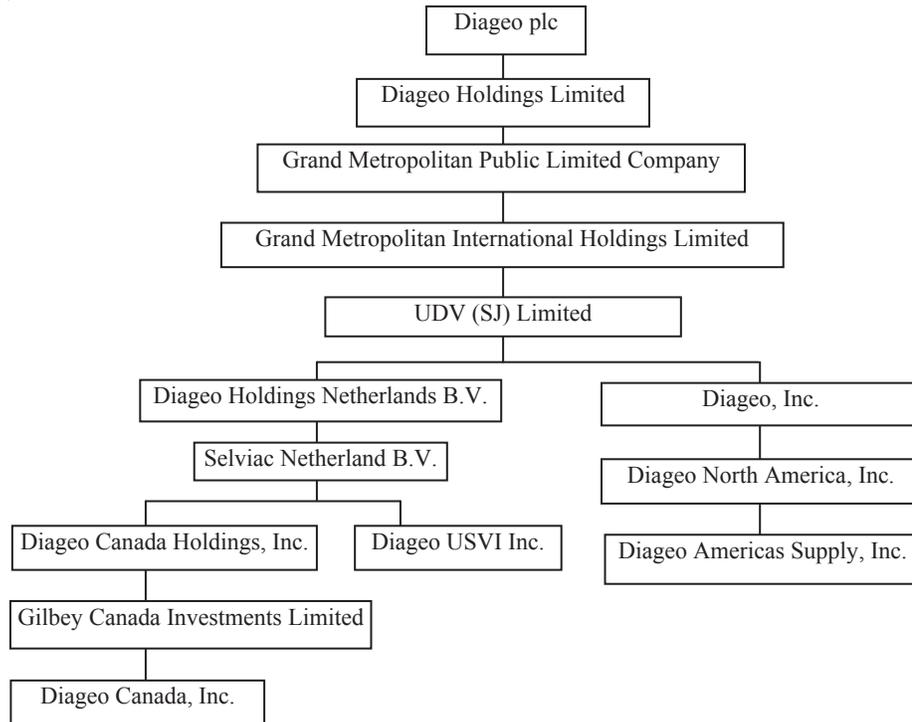
¹ Totals may not add due to rounding.

THE DIAGEO GROUP

Diageo plc (“Diageo plc”) and the entities that are controlled by or directly or indirectly owned in whole or in part by Diageo plc constitute the world’s leading premium drinks business with a broad collection of beverage alcohol brands across spirits, wine and beer categories. The Diageo plc related entities that are referenced below are collectively referred to herein as the “Diageo Group.” Members of the Diageo Group other than Diageo USVI are not legally or contractually obligated to support any of the obligations of Diageo USVI under the Diageo Agreement or otherwise except as described below under “- Diageo Holdings Comfort Letter.”

Diageo USVI

Diageo USVI is a corporation duly organized and validly existing under the laws of the Virgin Islands. Diageo USVI is a direct, wholly-owned subsidiary of Selviac Nederland B.V. (“Selviac”). Selviac is an indirect, wholly-owned subsidiary of Diageo plc. Diageo USVI was formed in June 2008, for the purpose of owning and operating the Diageo Project. The chart below shows the ownership chain from Diageo USVI to Diageo plc. Unless otherwise noted, the holding companies own 100% of the listed subsidiary.



Selviac Nederland B.V.

Selviac was formed on August 11, 1980. Its shares are held by Diageo Holdings Netherlands B.V. (“Diageo Holdings”), and its ultimate shareholder is Diageo plc, a publicly traded company headquartered in London, England. Selviac’s main activity is the holding of other companies of the Diageo Group. No significant change in the nature of those activities is expected in the near future. Selviac’s net profit for fiscal year ended June 30, 2008 was \$1.1 million. As of June 30, 2008, Selviac had total assets of approximately \$5.8 billion, share capital of approximately \$476 million (at a rate of €1.58), share premium of approximately \$1.2 million, retained earnings of approximately \$4.1 billion and current liabilities of approximately \$9.8 million.

Diageo Holdings Netherlands B.V.

Diageo Holdings was acquired by UDV (SJ) Limited, a Diageo affiliate, on July 21, 1987. Its ultimate parent company is Diageo plc. Diageo Holdings' principal activities are the holding and the financing of other companies in the Diageo Group. No significant change in the nature of those activities is expected in the near future. Diageo Holdings' net profit for year 2008 was \$314 million. As of June 30, 2008, Diageo Holdings had total assets of approximately \$34.4 billion, share capital of approximately \$7.6 million (at a rate of €1.58), share premium of approximately \$18.7 billion, retained earnings of approximately \$1.9 million and current liabilities of approximately \$13.8 billion.

Diageo plc

Diageo plc was the 16th largest ranked company in the Financial Times and Stock Exchange ("FTSE") in terms of capitalization on June 26, 2009, with a market capitalization of £22.0 billion, which, as of June 26, 2009, was the equivalent of approximately \$36.2 billion. Diageo plc was formed by the merger of Grand Metropolitan Public Limited Company and Guinness that became effective on December 17, 1997. Diageo plc is incorporated as a public limited company in England and Wales and its principal executive office is located in London. It is a major participant in the branded beverage alcohol industry and operates on an international scale, producing and/or distributing internationally known brands including Smirnoff vodka, Johnnie Walker scotch whiskey, Guinness stout, Baileys Irish Cream, J&B scotch whiskey, Jose Cuervo tequila, Tanqueray gin, Ketel One vodka, Crown Royal Canadian whiskey, Beaulieu Vineyards and Sterling Vineyards wines, Bushmills Irish whiskey as well as Myers and Captain Morgan rums. It currently expects to continue to invest in global brands, expand internationally and launch innovative new products and brands.

Diageo Holdings Comfort Letter

Pursuant to a Comfort Letter dated June 17, 2008, issued by Diageo Holdings (the "Comfort Letter"), Diageo Holdings acknowledged and consented to the Diageo Agreement and stated its intention to continue to support Diageo USVI for such time as any financial obligations or performance obligations may be owed by Diageo USVI under the Diageo Agreement. While Diageo Holdings has provided the Comfort Letter with respect to the payment obligations of Diageo USVI, none of Diageo plc, Diageo Holdings nor any other corporate affiliate of Diageo plc, except Diageo USVI, is legally obligated to make any payments pursuant to the Comfort Letter, the Diageo Agreement or otherwise.

THE DIAGEO AGREEMENT

Pursuant to the Diageo Agreement, Diageo USVI agreed to build and operate on St. Croix a distillery for the production and a warehouse for the storage of bulk rum used in the production of Captain Morgan branded products in St. Croix, in return for certain economic development incentives from the Government, including: (i) a grant of up to \$250 million to pay the cost of the Diageo Project; (ii) reductions or elimination of certain taxes otherwise due from Diageo USVI including corporate income tax, taxes on all dividends and interest Diageo USVI otherwise may be required to pay, taxes on all real property or any interest in real property to the extent such property is used for the Diageo Project, gross receipts taxes, all excise or similar taxes on materials and equipment utilized in the Diageo Project, customs duties on raw materials and component parts imported into the Virgin Islands for use in developing and constructing the Diageo Project; and (iii) receipt of annual payments to pay the costs of (x) a molasses subsidy (the “Molasses Subsidy”), (y) marketing efforts for the Captain Morgan brand rum (the “Marketing Support”) and (z) production incentive payments in the event that Diageo Matching Fund Revenues in any Fiscal Year beginning in Fiscal Year 2012, exceed certain production thresholds, all of which are capped at a maximum percent of Diageo Matching Fund Revenues in any year (the “Production Incentive Payments”).

In exchange for such incentives, in addition to agreeing to develop the Diageo Project, Diageo USVI agreed (i) that on or about January 1, 2012, or earlier if so decided by Diageo USVI, all bulk rum used in the production of Captain Morgan branded products sold in the United States will be produced at the Distillery, (ii) to minimum rum production thresholds starting at 1.5 million proof gallons in Fiscal Year 2012, and (iii) to certain liquidated damages payable to the Government in the event there is a material default of Diageo USVI’s obligation to meet certain rum production thresholds within the timeframes set forth in the Diageo Agreement. In the event Diageo USVI abandons the Diageo Project prior to the earlier of issuance of the Series 2009A Bonds or commencement of commercial operation of the Distillery in breach of its obligations under the Diageo Agreement, Diageo USVI is obligated to make a payment of \$25 million in liquidated damages to the Government for its failure to perform. Further, once the Series 2009A Bonds are issued, if Diageo USVI fails to produce bulk rum in the amounts specified in the Diageo Agreement and such breach is not cured within twelve months, the Government may terminate the Diageo Agreement, upon which termination Diageo USVI would be obligated to pay the Government liquidated damages in an amount determined pursuant to the Diageo Agreement, taking into account when the termination occurs and what interest rate is applied to such damages. **Although liquidated damages payable by Diageo USVI to the Government could be substantial, such liquidated damages are not a part of the Diageo Trust Estate and are not pledged to holders of the Series 2009A Bonds. Pursuant to the Diageo Project Implementation Agreement, however, the Government has agreed to (i) deliver all such payments to the Paying Agent to be applied to the redemption and/or defeasance of outstanding Series 2009A Bonds and (ii) not to use such liquidated damages for any other purpose so long as any Series 2009A Bonds are outstanding.**

If the amount of federal excise tax per proof gallon remitted by the Treasury back to the Government (the “Cover Over Rate”) is reduced below the level of \$10.50 per proof gallon or the economic development incentives provided by the Government to Diageo USVI are reduced or unavailable, Diageo USVI has the right to terminate the Diageo Agreement, in each case without the payment of liquidated damages. The Diageo Agreement expires 30 years from the later of (i) its effective date of July 10, 2008, the date that the Virgin Islands Legislature ratified the Diageo Agreement, or (ii) the date on which no Series 2009A Bonds remain outstanding, but is subject to extension at the option of Diageo USVI for an additional 30-year term.

The Diageo Agreement also provides that, after making annual deposits to (i) satisfy debt service payable on the Series 2009A Bonds, including any sinking fund redemptions, and (ii) replenish the Debt

Service Reserve Account in an amount necessary to meet the Debt Service Reserve Account Requirement, between 49.5% and 57% of the Diageo Matching Fund Revenues, depending on the number of proof gallons of rum produced by Diageo USVI in the preceding year, will be deposited into the Government Account.

In addition to the payments to be made to the Government from the Diageo Matching Fund Revenues, an amount equal to 3% of such Diageo Matching Fund Revenues shall be deposited annually into a Community Facilities Trust Account to be administered by the Authority for the development, operation and maintenance of community and/or sports facilities and urban development projects recommended by the Governor and approved for funding by the Legislature. The funds on deposit in the Community Facilities Trust Account are not a part of the Diageo Trust Estate pledged to secure the payment of the Series 2009A Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS – Flow of Funds.”

After payments are made to satisfy debt service, to replenish the Debt Service Reserve Requirement in the Debt Service Reserve Account, to the Government Account and to the Community Facilities Trust Account, the remaining Diageo Matching Fund Revenues shall be deposited into the Surplus Receipts Account to make the Molasses Subsidy, Marketing Support and Production Incentive Payments to Diageo USVI in the amounts provided in the Diageo Agreement, as certified by a Calculation Agent. Any Diageo Matching Fund Reserves remaining after all payments have been made in accordance with the terms of the Diageo Agreement, as certified by the Calculation Agent, are payable to the Government to be used for any lawful purpose. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS – Flow of Funds.”

Currently, all rum used in Captain Morgan branded products sold in the U.S. is procured through an exclusive supply contract with a Puerto Rican third-party supplier, which expires on December 31, 2011. In accordance with the Diageo Agreement, upon completion of the Diageo Project, Diageo USVI will begin the production of rum that will be used to manufacture all Captain Morgan branded products sold in the U.S. in St. Croix beginning in January 2012. Puerto Rico also is eligible to and has received Matching Fund Revenues on rum produced by Diageo in Puerto Rico and elected and appointed officials in Puerto Rico have publicly objected to the relocation of the Diageo Group production facilities for Captain Morgan rum to the Virgin Islands. In April, Puerto Rico’s Resident Commissioner to the U.S. House of Representatives introduced legislation, H.R. 2122, that would limit the amount of any subsidy paid from Matching Fund Revenues by either the Virgin Islands or by Puerto Rico to any private company to a maximum of ten percent (10%) of such revenues. The proposed legislation provides that, if the Secretary of the U.S. Department of the Treasury (the “Secretary of the Treasury”) finds that either of the two governments has provided a subsidy greater than 10%, the amount in excess of 10% shall be paid over to the treasury of the government not providing the subsidy. The proposed legislation has been referred to the House Ways and Means Committee but no hearings have been scheduled and no further action has been taken on it. If the proposed legislation were in effect today, a portion of the benefits to be received by Diageo USVI from the Government under the Diageo Agreement would be inconsistent with the law. See “CERTAIN BONDHOLDER RISKS - Government’s Obligation to Make Payments Pursuant to Diageo Agreement.”

THE DIAGEO PROJECT

General

The Diageo Project consists of a distillery (the “Distillery”), a washwater treatment facility (the “Washwater Treatment Facility”) and separate barrel maturation warehouses (the “Warehouses”) to be constructed on two separate parcels of land in Christiansted, St. Croix and to be owned and operated by Diageo USVI. The Government will make a grant to Diageo USVI to finance substantially all of the costs of the design, construction and start-up of operations of the Distillery, the Washwater Treatment Facility and the Warehouses for the production and storage of rum. Diageo USVI expects to use the Distillery, the Washwater Treatment Facility and the Warehouses for the production and storage of bulk rum to be used in the Captain Morgan branded products exported by Diageo USVI to the United States. The Diageo Project also will include all related utilities, transportation improvements and facilities necessary and appurtenant thereto.

Based on estimates of annual sales volume commencing in 2012, rum exported to the United States from the Diageo Project is expected to generate approximately \$119.0 million in new Matching Fund Revenues for the Government over the nine-month period from January to September of 2012 and to grow Matching Fund Revenues to approximately \$238.5 million annually in 2024.

Diageo Group’s Prior Experience in Developing and Operating Similar Facilities

The Diageo Group, either itself or through predecessor companies, has significant experience in both developing and operating facilities similar in nature to the facilities to be built on St. Croix as part of the Diageo Project.

The Diageo Group recently completed the construction of a new malt distillery in Scotland on time and on budget. Construction commenced in October 2007 and the production of spirit commenced in January 2009. Diageo Group also recently increased bottling capacity at its packaging plant and its warehousing capacity in Scotland. In addition, Diageo Group is expanding its Cameronbridge grain distillery in Scotland, which includes the construction of a bio-energy plant designed to supply sustainable energy to the distillery, which is expected to be completed in June 2010.

The Diageo Group owns and operates Gimli, a distillery located in Manitoba, Canada. This distillery is the third largest distillery in North America and the second largest in Canada. The combined distillery and warehouse complex is situated on a 330 acre site with maturing inventory in 46 warehouses with capacity to store more than 1,375,000 barrels of aging whiskey. This distillery fills an average of 1,100 barrels of whiskey per day. The Gimli distillery was constructed over a period of approximately 18 months. The approximate construction time for the Gimli’s warehouses, after site preparation, was nine weeks. The Gimli facilities became operational in 1969.

The Diageo Group also owns and operates the Bundaberg Distillery in Australia. The Bundaberg Distillery has produced rum since 1888 and its current capacity is approximately seven million liters per year. The Diageo Group acquired its interest in the Bundaberg Distillery in December 2000.

The Diageo Group owns and operates the oldest operating brewery in Ireland, which is located in Kilkenny and dates back to 1710. The Diageo Group also owns and operates St. James’s Gate, in Dublin, Ireland, the brewery that was established in 1759 by Arthur Guinness and is still in operation. Over €350 million has recently been invested at St. James’s Gate in a new brewhouse, on-going technology development and for real-time logistical support systems. The Diageo Group and its predecessors have been operating St. James’s Gate since 1759.

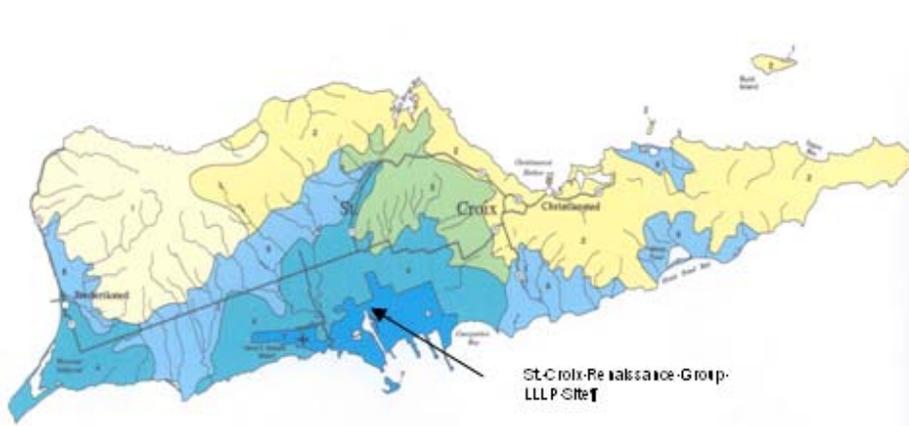
The Diageo Group also has owned and operated the Mary Street brewery in Waterford, Ireland since 1955. The Mary Street brewery has been in operation as a brewery for over 200 years. The Diageo Group also owns and operates three spirit and beer production facilities in Kenya, Uganda and South Africa, where it produces Guinness Foreign Extra Stout, Gordon’s Spark, Smirnoff Sipin, Tusker, Guinness Malta, Senator Keg Lager, Foundry Cide and Windhoek Lager. The Diageo Group also owns and operates, through a joint venture, *La Primavera*, a distillery located in Atotonilco, Mexico, where it produces Don Julio Tequila. The Diageo Group acquired its interest in *La Primavera* in 2000.

The Diageo Group also owns the Clarendon Distillery in Monymusk, Jamaica, through a joint venture with National Rums of Jamaica Limited, a state owned company. The Diageo Group does not operate the Clarendon Distillery directly but has significant advisory input into its operations. The Clarendon Distillery produces approximately six million liters of rum per year. The Diageo Group acquired its interest in the Clarendon Distillery in 2000.

Description of the Facilities

Distillery and Washwater Treatment Facility

The Distillery and the Washwater Treatment Facility will be constructed on approximately 26 acres of land (the “Distillery Site”) at the St. Croix Renaissance Industrial Park (the “Park”), a 1200-acre industrial park owned by the St. Croix Renaissance Group LLP (“Renaissance”) located on the southern coast of St. Croix.



When fully operational at maximum capacity, the Distillery will have capacity to produce 20 million proof gallons of rum per year at a production rate of 80,000 liters per day on the basis of 200 to 250 days per year of operation. The Distillery Site also will house an administrative office, a laboratory and work space and amenities for up to 70 employees. Construction of the Distillery includes the development of two separate plots at the Distillery Site with a molasses receiving area, a main distillery and ancillary operations.

Construction of the Washwater Treatment Facility includes the development of a plot at the Distillery Site with all equipment and systems employed for the treatment of the Distillery effluents (washwater).

Distillery Site Lease Agreement

Diageo USVI has executed a lease agreement with Renaissance to lease the Distillery Site. The lease agreement provides for a leasehold term of up to 60 years assuming the exercise of five optional 10-year extensions, which are at the sole discretion of Diageo USVI (provided that no monetary event of default (as described below) shall have occurred and be continuing). As used herein, the term of the lease agreement includes the initial term and any optional extensions exercised by Diageo USVI. These options allow Diageo USVI, at its sole discretion, to maintain possession of the Distillery Site throughout the 60-year period of the lease agreement.

If Diageo USVI extends the term for the full 60-year period, Diageo USVI may, at its sole discretion (provided that no monetary event of default shall have occurred and be continuing), further extend the term for an unlimited number of 10-year periods by giving prior written notice to Renaissance, not earlier than six months prior to the then scheduled expiration date of the current term, provided that the total term of the lease agreement may not extend beyond 200 years following the lease commencement date. Following the expiration of the 60-year period, Renaissance, however, may terminate Diageo USVI's right to future additional 10-year optional terms by giving prior written notice to Diageo USVI, not earlier than 36 months prior to the then scheduled expiration date of the current term, that it wishes to sell the premises to Diageo USVI. If Renaissance delivers such notice to Diageo USVI, Diageo USVI must respond to Renaissance's offer to sell the premises within 30 days after receipt of such notice. If Diageo USVI accepts the offer, Diageo USVI must accept the price set by Renaissance or submit such proposed price to arbitration to determine the fair market value of the premises. Upon the determination of the fair market value of the Distillery Site, Diageo USVI shall either accept or reject such determination and provide Renaissance with a purchase and sale agreement for the Distillery Site. If Renaissance rejects the purchase and sale agreement or, defaults on or fails to close on the sale of the Distillery Site under such purchase and sale agreement, Diageo USVI's option to request additional 10-year option terms will be restored. In the event that the parties cannot agree upon an appraised purchase price for the premises, Diageo USVI may no longer exercise the additional 10-year option terms.

The annual base rent during the term under the lease agreement is calculated on a per acre basis and is increased every five years pursuant to an adjustment under the Consumer Price Index. If Diageo USVI opts to extend the term beyond the 60-year period, Renaissance may elect to submit the determination of market rate base rent to an appraisal process. During the term of the lease agreement, Diageo USVI shall, if applicable, also be responsible for additional charges, which include, without limitation, dockage and wharfage charges, container charges, Virgin Islands ship dues, washwater services charges and security service charges.

Diageo USVI also has the option to lease additional land adjacent to the Distillery Site should additional production capacity be needed in the future, provided that Renaissance and Diageo USVI mutually agree upon the location of a vacant parcel of real property at the Park. By locating the Distillery in the Park, the Diageo Project will benefit from existing infrastructure, including access to port and certain existing permits. The Park is zoned for heavy industry, which permits distillery use.

In addition to the right to use the premises pursuant to the lease agreement, Renaissance also has granted to Diageo USVI each of a non-exclusive (i) license to allow Diageo USVI's molasses ships to access the Kraus Channel and use the ship unloading station located at the Park, (ii) easement to use the entrance roadway to the Park, (iii) easement to use the access roadway, and (iv) easement to install, use and maintain pipe racks and to install pipe racks in a location at the Park mutually agreed upon by Renaissance and Diageo USVI, in each case for the term of the lease agreement; provided, however, the rights and responsibilities of the parties under the roadway easement, the access easement and the pipe rack easement shall be delineated in separate definitive easement agreements to be executed by the parties

hereafter. Renaissance and Diageo USVI have agreed that all of these rights are inextricably bound together, so that such rights are intended to follow lease ownership. There is no assurance, however, that, if Renaissance transfers its interest in the premises to a third party, such third party will respect the license granted to Diageo USVI in clause (i) above; although the rights granted to Diageo USVI by means of the easements in clauses (ii) through (iv) should be binding on such third party upon execution of easement agreements and the recordation of a memorandum identifying such easement agreements.

Diageo USVI shall at all times during the term of the lease agreement, at its sole cost and expense, keep the improvements to be constructed on the premises in compliance with all applicable laws and maintain the specified pipe easement area at the Park within its control in good repair and in compliance with all applicable laws. Renaissance shall, at all times during the term of the lease agreement, at its sole cost and expense, keep the access roadway, entrance roadway and the ship unloading station in good repair and in compliance with all applicable laws. If either party fails to commence the performance of any maintenance or repairs that it is required to do under the lease agreement within thirty (30) days after the other party has provided written notice of the need for such maintenance or repairs, then the other party will have the right, but not the obligation, to perform such maintenance and repairs and, if the other party elects to perform such maintenance or repairs, then the other party shall provide an itemization of the costs and expenses incurred in connection with such maintenance and repairs to the responsible party, and the responsible party shall be obligated to reimburse the other party for such cost of maintenance and/or repairs within thirty (30) days of the completion of such maintenance and/or repairs and the responsible party's receipt of written request for reimbursement, along with an itemization of such costs and expenses.

If during the term of the lease agreement, all or any portion of the improvements constructed on the premises and/or the pipe and pipe racks constructed in the pipe easement area shall be destroyed or damaged in whole or in part by fire or other casualty of any kind or nature, Diageo USVI shall give Renaissance written notice of such casualty within thirty (30) days of such casualty event. Regardless of whether or not such casualty shall have been insured, and whether or not insurance proceeds, if any, shall be sufficient, Diageo USVI may at its discretion choose whether or not to repair, alter, restore, replace and/or rebuild such improvements constructed on the premises and/or pipes and pipe racks constructed in the pipe easement area.

If during the term of the lease agreement, the ship unloading station or any part thereof, or the entrance roadway or any part thereof, or the access roadway or any part thereof shall be damaged, destroyed by fire, or by any other peril, Renaissance shall be obligated to proceed to repair such damage; provided, however, Renaissance does not guarantee the availability of the ship unloading station throughout the term of the lease agreement and shall not be liable for any damages which Diageo USVI or any other party may suffer or incur arising out of the ship unloading station not being operational. If Renaissance fails to commence the repair of any such damage in connection with such casualty within thirty (30) days after such casualty, Diageo USVI will have the right to repair and receive reimbursement as provided for above with respect to maintenance. In the event that the ship unloading station cannot be repaired, or requires significant repairs, and is consequently unavailable, Diageo USVI will be required to (i) work with Renaissance to locate and utilize alternate ship unloading stations at the Park that could accommodate the pumping of Diageo USVI's molasses to the molasses tanks or (ii) utilize the Gordon Finch Molasses Pier on St. Croix (the "St. Croix Molasses Pier"), which is owned by the Government.

Events of Default under the lease agreement are categorized as either monetary events of default or non-monetary events of default. A monetary event of default solely consists of Diageo USVI's failure to pay base rent or any other monies. A monetary event of default results after base rent or any other monies are: (i) 10 days delinquent and Renaissance sends a first notice; (ii) if still delinquent 10 days after receipt of the first notice, Renaissance shall send a second notice; and (iii) if still delinquent 10 days after

receipt of second notice, a monetary event of default shall have occurred; provided, however, Diageo USVI may cure such monetary event of default within 20 days after receipt of the second notice by paying the outstanding amount due plus 6 months base rent as additional security. Upon a monetary event of default, Renaissance may: (i) enter the premises, with or without legal proceedings, take possession of all goods, inventory, equipment, fixtures and other personal property, and sell the same at public or private sale; (ii) terminate the lease (after notice to Diageo USVI) and re-enter the premises with or without legal proceedings; and/or (iii) exercise any of Renaissance's other legal or equitable rights. A non-monetary event of default consists of any other failure under the lease agreement. Upon a non-monetary event of default, Renaissance's remedies include seeking damages or performing on behalf of Diageo USVI and demanding reimbursement. Renaissance, however, cannot terminate the lease agreement pursuant to a non-monetary event of default.

The Warehouses

Diageo USVI plans to build two warehouses on 20.1 acres of land located at Plot 25 Estate Diamond, Prince Quarter (the "Warehouse Site"), located approximately four miles from the Distillery Site. On November 10, 2008, Diageo USVI entered into a sale and purchase agreement for the acquisition of the Warehouse Site. Following the completion of diligence review, Diageo USVI acquired the Warehouse Site in May 2009. The zoning of the Warehouse Site is designated as "C-Commercial", which allows for warehouse use. The facilities to be constructed on the Warehouse Site will provide at least 200,000 square feet of barrel warehousing capacity. The bulk rum produced in the Distillery will be warehoused in maturation barrels at the Warehouse. After maturation, the rum will be returned to the Distillery and transferred to isotankers or other vessels for shipment to the United States.

The Warehouses will be made of pre-fabricated steel, constructed and designed for wind and seismic conditions, meeting or exceeding the construction code for the Virgin Islands. Natural lighting and ventilation will in each case be utilized to minimize the need for utilities on the site. Emergency lighting and full fire suppression and sprinkler systems are included in the design. The Warehouse Site also will feature a small office/service building including amenities for employees working at the site. The Warehouse Site security and communications will be integrated with the Distillery Site and managed remotely.

Construction Cost and Schedule

Diageo USVI estimates the cost of construction of the Diageo Project to be approximately \$184 million. The construction contracts for each of the Distillery, the Washwater Treatment Facility and the Warehouses were awarded in March 2009. The consulting and engineering contracts for the Distillery and the Washwater Treatment Facility were executed in May 2009, and the final contract for the Warehouses is expected to be executed in June 2009.

A groundbreaking ceremony for the Diageo Project was held and construction commenced in May 2009, following the granting of the CZM permit. Construction is scheduled to be completed by November 2010, with the production of rum scheduled to commence at the same time. The first shipment of rum to the United States is expected to occur on or about January 1, 2012. Diageo USVI has expended approximately \$30 million on the Diageo Project, which will be reimbursed to Diageo USVI with the proceeds of the Series 2009 Bonds. In addition, Selviac plans to invest \$40 million for the Diageo Project working capital costs in 2009.

The table below outlines the current construction schedule for the Diageo Project.

| | CY 09 | | | | | | | | | | | | C10 | | | | | | | | | | | | C11 | | | | | | | | | | |
|------------------------|-------------------|---|---|---|--------------|---|---|---|------------------------|---|---|---|----------|---|---|---|------------|---|---|---|---|---|---|---|-----|---|--|--|--|--|--|--|--|--|--|
| | J | F | M | A | M | J | J | A | S | O | N | D | J | F | M | A | M | J | J | A | S | O | N | D | J | F | | | | | | | | | |
| Distillery & Washwater | Final Engineering | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Permits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | Site Work | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | Building & Structural | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | Equipment Installation | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | Start-Up | | | | Production | | | | | | | | | | | | | | | | | | |
| Warehousing | | | | | WHSE Permits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | WHSE Implementation | | | | | | | | | | | | | | | | | | | | | | | | | | |

Required Permits

Diageo USVI is required to obtain certain governmental permits and approvals in connection with the construction and operation of the Diageo Project. The table below lists the required material permits and approvals for the construction and the operation phases of the Diageo Project, the applicable governmental authorities issuing such permits, the status of the permits and, for permits that have not yet been obtained, the approximate time usually required for the issuance of each permit after an application for the permit has been submitted. Following the chart is a brief description of each of the required permits.

| PERMITS | GOVERNMENTAL AUTHORITY | STATUS/TIMING |
|--|---|---|
| DISTILLERY SITE | | |
| <u>PERMITS REQUIRED TO BEGIN CONSTRUCTION</u> | | |
| CZM Major Land | Department of Planning and Natural Resources (“DPNR”) | Notice of Permit Issuance Received 04/08/2009. |
| Synthetic Minor Air Pollution | DPNR | Submitted 01/14/2009; ruled complete 05/05/2009; response expected within 30 days of submission. |
| TPDES Grading | DPNR | Submitted 03/05/2009; supplemental information submitted 06/05/2009; response expected within 30 days of submission. |
| TPDES Construction | DPNR | Expected to be submitted after building plans are complete. |
| <u>PERMITS REQUIRED TO BEGIN OPERATION</u> | | |
| TPDES Industrial | DPNR | Submitted 03/05/2009; supplemental information submitted 06/05/2009. Response expected within 30 days of submission. |
| Terminal License Application | DPNR | Diageo USVI and SCRG are working with the U.S. Coast Guard to develop plans for pier improvements. Submission expected after pier improvements completed. |
| Construction and Alteration Approval | Federal Aviation Administration (“FAA”) | Submitted 03/09/2009; ruled complete 05/18/2009. Approval expected mid-July. |
| Archeology Phase I | DPNR/Virgin Islands State Historic Preservation office (“VISHPO”) | Completed and approved 02/19/2009. |

| PERMITS | GOVERNMENTAL AUTHORITY | STATUS/TIMING |
|-------------------------------|---|--|
| Archeology Phase II | DPNR/VISHPO | Completed and approved 03/02/2009. |
| Archeology Phase III | DPNR/VISHPO | Field work completed as of 06/26/2009; management summary to be submitted to VISHPO 6/30/2009; final approval expected mid-July. |
| Fire Protection | VI Fire Department (“VIFD”) | Submitted 12/2008; final approval expected after Diageo USVI submits final construction documents to VIFD. |
| Water Connection | WAPA | Preliminary approval received in 02/2009; final approval subject to receipt of final connection design, which Diageo USVI expects to submit four weeks after commencement of construction. |
| Sewer Connection | VI Waste Management Authority (“VIWMA”) | Submitted 01/02/2008; approval subject to receipt of final construction documents, which Diageo USVI expects to submit four weeks after commencement of construction. |
| Solid Waste Approval | VIWMA | Approved 12/29/2008. |
| Special Waste Disposal Permit | VIWMA | To be submitted after the Distillery is built, during pilot testing. |
| Building Permit | DPNR | To be submitted in phases. First phase to be submitted 07/02/2009. Next phase expected to be submitted mid-August.. |

WAREHOUSE SITE

PERMITS REQUIRED TO BEGIN CONSTRUCTION

| | | |
|-------------------------|------|--|
| Land Clearing | DPNR | Approved 04/22/2009; land clearing now completed. |
| Earth Change Major Land | DPNR | Submitted 06/05/2009; response expected within 10 days after TPDES approval. |

PERMITS REQUIRED TO BEGIN OPERATION

| | | |
|-----------------------------|-------------|--|
| Insignificant Air Pollution | DPNR | Application complete and under review by DPNR |
| Archeology Phase I | DPNR/VISHPO | Completed and finding of no affect approved 02/09/2009. |
| Fire Protection | VIFD | Submission expected following execution of the Benton Agreement (as defined herein); response expected 30-45 days from submission. |
| Water Connection | WAPA | Submission expected following execution of the Benton Agreement; response expected 30-45 days from submission. |
| Sewer Connection | VIWMA | Submission expected following execution of the Benton Agreement; response expected 30-45 days from submission. |
| Building Permit | DPNR | Submission expected mid-July; approval expected within 30 days after submission. |

CZM Permit

A CZM permit is required for all developmental activity in what is classified as the “first tier” of the coastal zone of the Virgin Islands. The Distillery is located in the first tier of the coastal zone, the Warehouses are not. Diageo USVI submitted the CZM permit application on January 9, 2008. On April

8, 2009, the CZM committee of the DPNR determined to grant the CZM permit to Diageo USVI. The CZM permit is expected to be issued shortly.

Synthetic Minor Air Pollution

The DPNR is responsible for regulatory oversight to implement and enforce air pollution and air quality requirements in the Virgin Islands. All of St. Croix is designated Class II by the U.S. Environmental Protection Agency (the "EPA") in compliance with the National Ambient Air Quality Standards. According to the Virgin Islands rules and regulations, the following air pollutants are regulated in Class II air quality regions: open burning, visible air contaminants, particulate matter emissions, volatile petroleum products, sulfur compounds and internal combustion engine exhaust. The Distillery will be located in an industrial area that contains multiple major sources of emissions, including the Anguilla Landfill, Renaissance and HOVENSA. Since emissions from the Distillery of each of the criteria pollutants will be less than 100 tons per year and the aggregate emissions of hazardous air pollutants will be less than 10 tons per year, the Distillery falls into the category of "minor source" as defined by DPNR; therefore, DPNR is expected to issue the CZM permit for the Distillery Site without requiring Title V or Prevention of Significant Deterioration of Air Quality ("PSD") review.

Alcohol vapor escapes from wooden barrels during the aging process of spirits. Most jurisdictions in the U.S. consider these emissions to be fugitive emissions for which there is no Reasonably Applicable Control Technology. DPNR has agreed that emissions from the aging process are fugitive, meaning that a PSD or Title V construction permit will not be required for the construction of the Warehouses.

TPDES

The TPDES program monitors discharges and enforces regulations controlling discharges of water from specific sites, including industrial, commercial and some residential sites that discharge into the waters of the Virgin Islands. Diageo USVI submitted to DPNR applications for two separate TPDES permits for the Diageo Project. The first is for the discharge of stormwater during construction of the Distillery. The second is for discharge of stormwater during operation of the Distillery. During both construction and operation excess stormwater will be received by the existing gut at the Park. This gut currently directs runoff to a cooling pond also at the Park. The final receiving water is Krause Channel and the Caribbean Sea. Diageo USVI submitted applications for both of these permits to DPNR on March 5, 2009, and additional information requested by DPNR on June 5, 2009. Response from DPNR is expected within 30 days of submission. A third application for site grading for building construction will be submitted once building design plans are completed.

Terminal License Application

The DPNR requires a Terminal Facility License be obtained by anyone seeking to operate any vessel that results in the discharge of oil, petroleum products or their by-products, and other pollutants into or upon any costal waters adjoining the seacoast of the Virgin Islands. As currently configured, the Diageo Project will require a Terminal Facility License for the shipment of both fuel and molasses to the Distillery Site. Diageo USVI is awaiting finalization of its design plans as they relate to the intake of fuel and molasses into the Distillery Site before submitting its Terminal Facility License applications to DPNR. Diageo USVI expects to finalize these design plans in July 2009.

FAA Construction and Alteration Approval

The FAA requires the filing of notice 30 days in advance of construction or alteration on projects affecting navigable airspace. Diageo USVI submitted a preliminary notice of the project to the FAA, which determined the application to be complete on April 21, 2009. The FAA has confirmed in writing that the Diageo Project will be designated as a project not involving navigable airspace and that no further action will be required.

VISHPO-Archeology Phases

The VISHPO is responsible for surveying and inventorying historic places and sites, reviewing and ensuring compliance with federal and territorial preservation laws, historic preservation planning, securing of technical assistance, implementing of public education and identifying of cultural resources. Phase I archeological surveys were conducted at both the Distillery Site and the Warehouse Site. The survey at the Warehouse Site resulted in a finding of no historical resources. The survey at the Distillery Site revealed the presence of historical resources. The Phase II archeological data recovery phase was completed and approved on March 2, 2009. Phase III is expected to be completed in July 2009, when the historical resources have been adequately preserved. In the event that further action is required in connection with the preservation of the historical resources found at the site, this may result in a delay to completion of the Distillery and commencement of the production of rum. See “Certain Bondholder Risks—“Historical and Archeological Resources.”

Fire Protection

In December 2008, Diageo USVI submitted to the Virgin Island Fire Department the basic design for fire protection at the Distillery Site. VIFD has orally communicated to Diageo USVI that it has no objection to the basic design that Diageo USVI submitted. Upon receipt of the final construction documents, the VIFD will issue final approval. Diageo USVI expects to submit the final construction documents to VIFD eight weeks after commencement of construction.

Diageo USVI has not yet submitted the basic design for fire protection at the Warehouse Site. Diageo USVI expects to submit these following completion of the design plans for the Warehouses.

Water Connection

Diageo USVI currently has a preliminary approval and a commitment from WAPA that WAPA will provide water to each of the Distillery Site and the Warehouse Site, but the final approval is subject to the design approval of the connection itself. Diageo USVI expects to submit connection designs for each of the Distillery and the Warehouses to WAPA four weeks after commencement of construction.

Sewer Connection

In December 2008, Diageo USVI submitted to the VIWMA the basic design for sanitary sewer connection at the Distillery Site. Upon receipt of the final construction documents, the VIWMA will issue the final approval. Diageo USVI expects to submit the final construction documents to the VIWMA four weeks after commencement of construction.

Diageo USVI has not yet submitted the basic design for sewer connection at the Warehouse Site. Diageo USVI expects to submit these following completion of the design plans for the Warehouses.

Building Permit

Obtaining the CZM permit and the TPDES permit are conditions to applying for the building permit from the DPNR. In addition, DPNR must receive full construction documents before issuing the building permit. Diageo USVI expects to submit final construction documents to the DPNR after commencement of site work at both the Distillery Site and the Warehouse Site.

Land Clearing Permit for Warehouse Site

A Land Clearing Permit is required to clear brush, shrubs and other low lying vegetation on the Warehouse Site in anticipation of conducting a survey of the property to begin construction. Diageo USVI applied for the permit on March 9, 2009, and approval was received on April 22, 2009. The Warehouse Site has now been cleared for survey. The CZM permit allows for similar land clearing at the Distillery Site.

Earth Change Major Land Permit for Warehouse Site

An Earth Change Major Land Permit application was submitted on or June 5, 2009, to authorize contouring of the land to accommodate the design for the Warehouses. A response is expected within 10 days after receiving the TPDES Permit. The CZM permit authorizes similar changes to the landscape at the Distillery Site.

Consulting/Engineering Contracts

Engineering and Project Management

Diageo USVI engaged the Dennis Group, LLC (the “Dennis Group”) to assist with the early planning of the construction of the Diageo Project. With the assistance of the Dennis Group, Diageo USVI issued turnkey bids for the engineering and construction of the Distillery and the engineering and construction of the Warehouses pursuant to two separate requests for quotations.

The Dennis Group, which is headquartered in Springfield, Massachusetts and has additional offices in Toronto, Canada, Solana Beach, California and Salt Lake City, Utah, provides planning, design, architectural, engineering and construction management services exclusively to the food and beverage industries. It was formed in 1987 and has served clients in North America, Central America and Europe. For more information regarding the Dennis Group, see www.dennisgrp.com. Diageo USVI, the Authority and the Underwriters make no representation about the accuracy of the information found on the Dennis Group’s website.

Owner’s Engineer

Diageo USVI has engaged the U.S. affiliate of the Project Management Limited (“PM Group”) to serve as the owner’s engineer (the “Owner’s Engineer”) and provide professional engineering and project management services to ensure the Diageo Project is delivered to the agreed scope, on-time and within budget. The PM Group is a private company limited by shares, registered in Ireland. The PM Group is an indirect subsidiary of Project Management Holdings Limited t/a PM Group, a private company limited by shares, registered in Ireland.

The PM Group will perform the following activities on behalf of Diageo USVI: (a) review construction contracts, change order requests, requests for substitutions, requisitions for payment and shop drawings/submittals; (b) assist in obtaining permits; (c) assist in tracking all regulatory and licensing

plans; (d) assist in procurement activities; (d) conduct on-site inspections for quality control, assurance of reliability goals, adherence to risk management plans and adherence to environmental management plans; (e) attend and/or participate in plan reviews and schedule reviews; (f) perform vendor inspections and audits, review and/or monitor submissions of job close-out documents, implementation of personnel training; (g) provide financial auditing; (h) provide project reporting and value analysis; (i) perform cash flow management and cost tracking; (j) facilitate a full-time presence as Diageo USVI's representative on site; and (k) assist in warranty issue negotiations.

The PM Group has been rendering project and construction management, architectural and engineering design and a range of technical and consulting services since 1973. Since 1992, the PM Group has handled more than 50 projects directly for the Diageo Group or through predecessor companies, including: services design and construction management for a new canning plant; safety audit of a brewery plant room; mechanical and electric design for new kegging plant in 1995; review of a brewery cooling system; development of environmental management system for a brewery; environmental, safety and quality reviews for a chemical store, warehouse conversion, tanker unloading facility, process water treatment plant and mash turn cover, all with respect to a distillery; refrigeration plant replacement and technical consultancy; and washwater plant design and performance specifications.

Environmental Engineering

Diageo USVI has engaged the Maguire Group Inc. ("Maguire Group") to provide Diageo USVI with environmental consulting as well as permit consulting and preparation. The Maguire Group has substantial experience in all phases of civil engineering and environmental projects. The Maguire Group is headquartered in Foxborough, Massachusetts and has 12 offices throughout the northeast United States and the Virgin Islands. It was founded in 1938 and currently employs approximately 200 administrative and technical personnel, who have substantial experience rendering environmental compliance services in the Virgin Islands, including in connection with the location of the proposed Diageo Project facilities on St. Croix. The Maguire Group Inc. has provided, and is currently providing, natural resource evaluations, environmental compliance and civil engineering services to the Government of the Virgin Islands and to public and private clients on St. Croix. Notable projects of the Maguire Group on the Virgin Islands include: design of the St. Thomas Wastewater Treatment Plan and the St. Croix Wastewater Treatment Plant; compliance engineering for the St. Thomas Bovoni Landfill; design of the WAPA denitrification system and storage tank on St. Croix; East End Bay watershed erosion control; and construction administration for the WAPA 25 KV line.

The Maguire Group has been retained to prepare all of the permitting documentation required to be submitted by Diageo USVI throughout the course of the Diageo Project. For more information regarding the Maguire Group Inc., see www.maguiregroup.com. Diageo USVI, the Authority and the Underwriters make no representation about the accuracy of the information found on the Maguire Group's website.

Construction Contracts

Distillery Construction Contract

In May, 2009, Diageo USVI entered into engineering, procurement and construction agreements with Tomsa Destil, S.L. and its affiliates (collectively, "Tomsa") for the design, the procurement of equipment for and the construction, on a fixed-price lump sum basis, of the Distillery on the Distillery Site (the "Tomsa Agreements"). Tomsa, headquartered in Madrid, Spain, was selected based on its extensive experience with distillery design. Tomsa is an internationally recognized expert in the vacuum distillation process. Tomsa has designed and installed equipment on five continents, using all types of

raw materials, to produce a variety of alcohol. For more information regarding Tomsa, see www.tomsa.es. Diageo USVI, the Authority and the Underwriters make no representation about the accuracy of the information found on the Tomsa's website.

Pursuant to the Tomsa Agreements, Tomsa is obligated to perform all work related to the Distillery and interconnection between the Distillery and the washwater treatment facility, including the following: (i) all site and building engineering work, including civil, structural, architectural, mechanical, and electrical disciplines for all of the site improvements and structures required for the Distillery and interconnection work; (ii) securing all requisite subcontracts for the construction of the Distillery and carrying out applicable Distillery permitting activities; (iii) all site and building construction, including site clearing, provision of site utilities and provision of site improvements, such as footings and foundations, structural steel, concrete slabs, roofing and siding, plumbing, heat, ventilation and air conditioning ("HVAC"), refrigeration and fire protection, building power, lighting, grounding and site-related systems; (iv) all management, procurement, labor, materials, tools, supervision and commissioning services for the efficient implementation and completion of the work; (v) protecting the buildings, drainage systems and ancillary site structures during the construction period and remedying, at its own expense to the satisfaction of the PM Group, any damage caused by negligence or failure to provide adequate protection both to the Distillery and to its product; and (vi) the safety and insurance of equipment, materials, scaffolding, and any other items required for the completion of the work (the "Tomsa Work").

Tomsa also will procure all equipment and materials required for the Tomsa Work and be responsible for all costs associated with expediting, insurance, transportation, export and import of such equipment. All additions and modifications to the Tomsa Work will be executed via a formal change order. Pursuant to the Tomsa Agreements, Tomsa is required to certify that the Distillery can be operated effectively at 12.8 million (64% of design rate), 16 million (80%) and 20 million proof gallons per year (100%) in order for substantial completion to be achieved.

The aggregate fixed contract price for the Tomsa Work is \$36,680,000 for the construction work and €40,440,000 for the cost of the related engineering and procurement work (the "Tomsa Contract Price"). With respect to the portion of the Tomsa Contract Price that is to be paid in Euros, Diageo USVI has entered into currency hedging arrangements limiting its exposure to \$55,600,000. The Tomsa Contract Price constitutes the fixed limit of the engineering, procurement and construction cost available for the Tomsa Work and assumes there will be no material changes in Tomsa's obligations.

Should Tomsa fail to make the Distillery ready for continuous operation and commissioning, and otherwise achieve all of the requirements of mechanical completion under the Tomsa Agreements, by August 30, 2010 (the "Scheduled Mechanical Completion Date") as such date may be adjusted under the terms of the Tomsa Agreements, Diageo USVI may be entitled to retain or recover from Tomsa as liquidated damages \$30,000 for each day mechanical completion is delayed beyond the Scheduled Mechanical Completion Date (the "Delay Liquidated Damages"). The maximum amount of the Delay Liquidated Damages to be paid by Tomsa will not exceed in the aggregate 10% of the Tomsa Contract Price. In the event the performance tests for the washwater treatment facility are not successfully completed due to Tomsa's failure to meet the performance specifications set forth in the Tomsa Agreements, Tomsa shall pay, as "Process Liquidated Damages", amounts not to exceed in the aggregate 5% of the Tomsa Contract Price.

Diageo USVI will retain a portion of each payment to Tomsa under the payment applications issued to Diageo USVI pursuant to the Tomsa Agreements ("Retainage"). Retainage shall equal 10% in the aggregate of all payments to Tomsa and shall be retained by Diageo USVI until October 2010, at which point Diageo USVI shall release to Tomsa any Retainage relating to the satisfactorily-completed

Tomsa Work sufficient to reduce the Retainage to an amount equal to 125% of the reasonable value of all remaining Tomsa Work. In lieu of Retainage withholdings by Diageo USVI, Tomsa may at its option provide a letter of credit or similar instrument in a form acceptable to Diageo USVI in an amount equal to 10% of the Tomsa Contract Price outstanding from time to time.

Diageo USVI may withhold or nullify the whole or part of any payment, including the final payment, and withhold Retainage, to such extent as may be necessary to reasonably protect Diageo USVI from any of the following: (a) defective or nonconforming work; or (b) third-party claims, or liens, asserted or filed; (c) reasonable evidence that the Tomsa Work will not be completed for the unpaid balance of the Tomsa Contract Price; or (d) failure by Tomsa to make payments properly to subcontractors or for equipment, materials or labor, for a period of at least thirty (30) days; or (e) damage caused to Diageo USVI or a separate contractor under Diageo USVI's responsibility (such as the contractor for the Washwater Treatment Facility) caused by Tomsa or a subcontractor; or (f) failure of Tomsa to prosecute the Tomsa Work in accordance with the Tomsa Agreement.

Tomsa is required to secure its contract obligations by furnishing, delivering and maintaining either (i) a payment and performance bond, at Diageo USVI's cost, in a form satisfactory to Diageo USVI, or (ii) payment and performance bonds furnished by Tomsa's major construction subcontractors, in forms satisfactory to Diageo USVI, covering the full and faithful performance and completion of the construction work and the payment of all Tomsa's payment obligations related to such contracts in the amount equal to the aggregate contract price for the construction work (\$36,680,000), valid for the period extending until substantial completion (scheduled to occur in November, 2010), provided that a warranty bond for ten percent (10%) of the aggregate amount of the Tomsa Contract Price, as Tomsa's security for its warranty obligations through the applicable warranty period shall be issued at substantial completion. All such bonds will name Diageo USVI as a direct beneficiary.

To further secure its contract obligations, Tomsa must, from time to time throughout the term of the Tomsa Agreements, furnish, deliver and maintain a letter of credit, bank guaranty or similar instrument in a form satisfactory to Diageo USVI, covering (a) the full and faithful performance and completion of the engineering and procurement work for the period through the achievement by Tomsa of the next milestone on the schedule of values for which Tomsa expects to be paid upon approval by Diageo USVI, and (b) the payment of all of Tomsa's payment obligations through such period, provided such instruments must be in an amount equal to the corresponding value of such work as delineated in the schedule of values for such period, and must be valid for a period extending until ten (10) days following the Diageo USVI's approval of the work covered by the applicable payment milestone. All such security instruments must name Diageo USVI as direct beneficiary.

In addition, Tomsa has provided a parent guaranty, issued by Tomsa Destil, S.L., covering the full and faithful performance and completion of all work to be performed under the Tomsa Agreements by Tomsa affiliates.

Events of default under the Tomsa Agreement include: Tomsa's (i) failure to provide a sufficient number of skilled workers; (ii) failure to supply the materials required by the contract documents; (iii) failure to comply with applicable legal requirements; (iv) failure to timely pay, without cause, subcontractors, or materials or labor used in the Tomsa Work, (v) failure to provide the required bonds or any other contractor security; (vi) failure to maintain insurance required by the contract documents; (vii) failure to prosecute the Tomsa Work in accordance with the contract times within 60 days of each contract time; (viii) assigning its obligations under the contract documents without the consent of Diageo USVI; (ix) becoming subject to a voluntary or involuntary filing of bankruptcy or insolvency proceeding in any jurisdiction; or (x) failure to perform other material obligations under the contract documents. The Tomsa Agreements establishes curing provisions for several of these events of default.

Wastewater Treatment Facility Construction Contract

In May 2009, Diageo USVI entered into engineering, procurement and construction agreements with NAWS Caribbean, LLC, a United States Virgin Islands subsidiary of Veolia Water Solutions & Technologies, and with its affiliates (collectively, “Veolia”), for the design, the procurement of equipment for and the construction, on a fixed-price lump sum basis, of the wastewater treatment facility on the Distillery Site (the “Veolia Agreements”).

Veolia was selected based on its more than 70 years of specialized experience in water treatment design and build projects, as well as on its experience in the Virgin Islands, with a particular emphasis in St. Croix. For more information regarding Veolia, see www.veoliawaterst.com. Diageo USVI, the Authority and the Underwriters make no representation about the accuracy of the information found on Veolia’s website.

Pursuant to the Veolia Agreements, Veolia is obligated to perform all work relating to the wastewater treatment facility, including the following: (i) all site and building engineering work, including civil, structural, architectural, mechanical, and electrical disciplines for all of the site improvements and structures required for the wastewater treatment facility; (ii) securing all requisite subcontracts for the construction of the wastewater treatment facility and carrying out applicable permitting and procurement activities required for the work relating to the wastewater treatment facility; (iii) all site and building construction, including, site clearing, provision of site utilities and provision of site improvements, such as footings and foundations, structural steel, concrete slabs, roofing and siding, plumbing, heat, ventilation and air conditioning (“HVAC”), refrigeration and fire protection, building power, lighting, grounding and site-related systems; (iv) all management, procurement, labor, materials, tools, supervision and commissioning services for the efficient implementation and completion of the work; (v) protecting the buildings, drainage systems and ancillary site structures during the construction period and remedying, at its own expense to the satisfaction of the PM Group, any damage caused by negligence or failure to provide adequate protection both to the wastewater treatment facility and to its product; and (vi) the safety and insurance of equipment, materials, scaffolding, and any other items required for the completion of the work. (the “Veolia Work”). All additions and modifications to the Veolia Work will be executed through a formal change order.

The aggregate fixed contract price of the Veolia Work is \$26,446,875 (the “Veolia Contract Price”). The Veolia Contract Price constitutes the fixed limit of the engineering, procurement and construction cost available for the Veolia Work and assumes there will be no material changes in Veolia’s obligations.

Should Veolia fail to have the wastewater treatment facility ready for continuous operation and commissioning, and otherwise achieve all of the requirements of mechanical completion under the Veolia Agreements, by July 22, 2010 (the “Scheduled Mechanical Completion Date”), Diageo USVI may be entitled to retain or recover from Veolia as liquidated damages, for each day (each such day, a “Day of Delay”) after the fifteenth (15th) day beyond the Scheduled Mechanical Completion Date, \$10,000 for each Day of Delay, up to the first thirty (30) Days of Delay, and \$20,000 for each Day of Delay thereafter (the “Delay Liquidated Damages”). The maximum amount of the Delay Liquidated Damages to be paid by Veolia will not exceed in the aggregate 10% of the Veolia Contract Price. In the event the performance tests for the wastewater treatment facility are not successfully completed due to Veolia’s lack of conformance with the performance specifications set forth in the Veolia Agreements, Veolia shall pay, as “Process Liquidated Damages” amounts not to exceed in the aggregate 5% of the Veolia Contract Price.

Diageo USVI will retain 10% of the amount due to Veolia under each payment application issued to Diageo USVI pursuant to the Veolia Agreements (“Retainage”) through mechanical completion, at which point Diageo USVI shall release to Veolia any retained amounts relating to the Veolia Work or completed portion of the Veolia Work sufficient to reduce retention to an amount equal to 150% of the reasonable value of all punch list items remaining until final completion of the Veolia Work. In lieu of Retainage withholdings by Diageo USVI, Veolia may at its option provide a letter of credit in an amount equal to 10% of the Veolia Contract Price outstanding from time to time.

Diageo USVI may withhold or nullify the whole or part of any payment, including final payment, and withhold Retainage, to such extent as may be necessary to reasonably protect Diageo USVI from any of the following: (a) defective or nonconforming work; or (b) third-party claims, or liens, asserted or filed; (c) reasonable doubt that the Veolia Work will be completed for the unpaid balance of the Contract Price; or (d) failure by Veolia to make payments properly to subcontractors or for equipment, materials or labor; or (e) damage caused to Diageo USVI or a separate contractor under Diageo USVI’s responsibility caused by Veolia or a subcontractor; or (f) failure of Veolia to prosecute the Veolia Work in accordance with the contract documents.

Veolia must furnish, deliver and maintain payment and performance bonds, in forms satisfactory to Diageo USVI in its sole discretion, covering the full and faithful performance and completion of the Veolia Agreements and the payment of all Veolia’s payment obligations thereunder in an amount equal to the Veolia Contract Price, valid for the period extending until mechanical completion, provided that a warranty bond for ten percent (10%) of the aggregate amount of the Veolia Contract Price, as Veolia’s security for its warranty obligations through the applicable warranty period shall be issued at mechanical completion. Such bonds will name Diageo USVI as a direct beneficiary.

In addition, Veolia has provided a parent guaranty, issued by N.A. Water Systems, LLC, covering the full and faithful performance and completion of all construction work to be performed by its subsidiary, N.A.WS Caribbean, LLC., under the Veolia Agreements.

Events of default under the Veolia Agreement include Veolia’s (i) failure to provide a sufficient number of skilled workers; (ii) failure to supply the materials required by the contract documents; (iii) failure to comply with applicable legal requirements; (iv) failure to timely pay, without cause, subcontractors or for materials or labor used in the Veolia Work and failure to provide the required bonds or any other required contractor security; (v) failure to maintain insurance required by the contract documents; (vi) failure to prosecute the Veolia Work in accordance with the contract times within 60 days of each contract time; (vii) assigning its obligations under the contract documents without the consent of Diageo USVI; (viii) becoming subject to a voluntary or involuntary filing of bankruptcy or insolvency proceeding in any jurisdiction; or (ix) failure to perform other material obligations under the contract documents. The Veolia Agreement establishes curing provisions for several of these events of default.

Insurance Coverage during Construction

Each of the Tomsa Agreements and the Veolia Agreements imposes standard insurance requirements on Tomsa and Veolia, respectively, to maintain liability and other types of insurance generally required for construction projects of the size and scope similar to the Diageo Project. As a part of such requirements, Veolia is required to maintain a \$50 million umbrella liability policy covering its work and Tomsa is required to maintain a \$30 million umbrella liability policy covering its work. Additional insurance coverage requirements include workers compensation, employers liability, professional liability, builders risk and pollution liability policies which are standard and customary for projects of this type.

Interconnection Coordination and Cooperation Agreement

In June 2009, Diageo USVI and PM Group entered into an agreement with Veolia and Tomsa for the coordination and general cooperation amongst the contractors, Diageo USVI and PM Group relating to the interconnect between the Distillery and washwater treatment facility (the “Cooperation Agreement”). While the responsibilities of each party relating to the interconnect are specifically delineated in the scopes of work in Tomsa’s and Veolia’s respective agreements with Diageo USVI, under the Cooperation Agreement, Tomsa and Veolia agree to use best efforts to coordinate and cooperate with each other and Diageo USVI with respect to the interconnection work.

Barrel Maturation Construction Contract

In July 2009, Diageo USVI expects to enter into a contract with J. Benton Construction, LLC (“Benton”) for the turn-key design, engineering, procurement and construction of the barrel warehouse facilities on the Warehouse Site (the “Benton Agreement”).

J. Benton Construction, LLC of Christiansted, St. Croix was selected based on their extensive experience with design/build, construction management and general contracting services in the Virgin Islands, with a particular emphasis in St. Croix. James Benton, President and owner of J. Benton Construction, LLC, has successfully completed many public and private sector projects including aviation, medical, institutional, resort and casino, telecommunications, assisted living and multi-unit residential facilities. Benton’s principals have been engaged in the construction industry in the Virgin Islands since the early 1990s. For more information regarding J. Benton Construction, LLC, see www.bentonconstruction.com. Diageo USVI, the Authority and the Underwriters make no representation about the accuracy of the information found on J. Benton Construction, LLC’s website.

Under the Benton Agreement, Benton will be obligated to perform all Warehouse Site work, including demolition, site preparation, earthwork, soil stabilization, paving and site improvements, storm drainage accommodation (including handling storm drain inlet structures and catch basins, storm drain piping and rainwater collection and reuse systems), site utilities provision and landscaping (the “Benton Work”). All additions and modifications to the scope of Benton Work will be executed via a formal change order.

Facilities’ Managers

Each of Diageo North America, Inc., Diageo Supply Americas, Inc. (“Diageo Supply”) and Diageo Canada, Inc. has entered into an agreement with Diageo USVI to provide management services in the construction and start-up phase of the Diageo Project.

Oversight of the construction and operation of the Distillery and the Warehouses will be managed internally by Daniel Kirby, the Vice President of Supply at Diageo Supply Americas, Inc. with support from Robert Irby, the Strategic Project Director at Diageo Supply. The engineering work will be managed internally by Brian Hunnius, the Director of Engineering at Diageo Supply. Mr. Hunnius will be supported by the PM Group. Each of these individuals has a number of years of experience in project management, engineering and operations in the alcohol beverage industry. See “THE DIAGEO PROJECT – Diageo Service Agreement.”

Utilities, Services and Materials

The following provides details regarding water supply and disposal, other utilities, services and consumable materials needed to operate the Diageo Project. For more information regarding permitting required in connection such matters, see “THE DIAGEO PROJECT – Required Permits.”

Electricity. The Virgin Islands Water and Power Authority (“WAPA”) has agreed to supply electricity to the Diageo Project. Renaissance also has made a proposal to Diageo USVI to supply electricity as part of a utilities supply agreement. Diageo USVI is evaluating what option may better fit the needs of the Distillery Site. If Diageo USVI opts to purchase electricity from WAPA, Diageo USVI will interconnect with WAPA’s transmission and distribution system at one of the two connection points presently available on the Distillery Site. It is anticipated that WAPA will supply electricity to the Warehouse Site.

Steam Generation. Steam required for the distillation process will be generated on the Distillery Site by steam boilers fired by a combination of number 6 fuel oil and bio-gas. The bio-gas used in the steam boilers will be generated on site by the digestion of spent molasses liquor remaining from the distillation process. Fuel oil will initially be used to fire the boilers until the digestion process begins bio-gas conversion. It is estimated that bio-gas will meet about 60 percent of the fuel needs for the boiler with fuel oil making up the other 40 percent.

Fuel Oil. Diageo USVI has an agreement with GeoNet Ethanol LLC (“GeoNet”) to provide fuel oil to the Distillery Site from GeoNet’s storage tanks via tank truck. Under the Diageo Project’s current configuration, GeoNet will transport fuel oil to the Distillery Site by truck. GeoNet presently holds a terminal license to transport oil to and store oil at the port. GeoNet receives oil shipments approximately once a month. A second monthly shipment would be needed to provide the additional fuel oil required by the Distillery. GeoNet has filed an application to amend its terminal license to accommodate this increased shipping and storage of oil. Diageo USVI also is in discussions with HOVENSA, as an alternative, for the direct shipment of fuel oil, which could eliminate double-handling of the fuel oil, reducing costs as well as risk.

Diageo USVI is expected to enter into a supply agreement with HOVENSA under which HOVENSA will provide diesel fuel to the Distillery Site. Diesel will be used to operate certain equipment as well as for reserves in the event that number 6 fuel oil is not available when needed to operate the steam boilers.

Potable Water. Potable water required for the Diageo Project will be supplied by WAPA and/or St. Croix Renaissance Group LLP (“Renaissance”). The potable water line for the Diageo Project will connect the Distillery Site to both the WAPA and the Renaissance water systems. Therefore, Diageo USVI will have the capability of purchasing water for the Distillery Site from either party. It is anticipated that WAPA also will provide potable water to the Warehouse Site.

Cooling Water. Recycled fresh water will be used to condense the alcohol from the distillation process. The Distillery will use approximately two million gallons of water daily for this purpose. Under the current facility design, recycled water will be drawn for cooling water purposes from the Anguilla water treatment facility operated by the VIWMA. VIWMA will construct a recycled water pipeline from Anguilla to the Distillery and VIWMA and Diageo USVI will maintain the pumping capacity needed to provide cooling water to the heat exchangers for the Distillery. Cooling water that has passed through the heat exchangers will be routed to cooling towers and brought back to ambient temperature. The water will then be returned to the cooling system for re-use in cooling the Distillery.

Stormwater Management. The Diageo Project includes erosion and sedimentation controls designed to minimize soil loss during construction and a Stormwater Pollution Prevention Plan (“SWPPP”) to protect water quality during construction and operation. Rooftop stormwater runoff will be routed to a cistern and used on site, both for process make-up water and to meet firefighting requirements. Runoff from roads and parking surfaces will be routed to an on-site sedimentation basin for treatment. After treatment, the water will be discharged to the existing drainage system on the Park.

Sanitary Sewer. Sanitary sewage generated on the Distillery Site will be discharged through a connection to the Virgin Islands Waste Management Authority (“VIWMA”) sewer line located in the highway adjacent to the property. The sewer connection will be used only to dispose of sanitary sewage generated from the restrooms and sinks in the office building. No washwater or process water will be discharged to the sanitary sewer. It is anticipated that VIWMA also will provide for connection to a sewer line adjacent to the Warehouse Site.

Solid Waste. VIWMA will provide for disposal of solid waste from the Distillery to VIWMA facilities. When operational, the Distillery and water treatment processes will generate approximately six truckloads of waste daily. This will include normal office waste generated by the employees, but the bulk of the waste will consist of digested biologically stable non-odiferous bio-solids. Over the short term, approximately two years, this solid waste will be disposed of or utilized at a nearby VIWMA landfill. Diageo USVI is exploring options for reuse with Renaissance and VIWMA so that, in the future, the material can be re-used for energy recovery, landfill capping, or agricultural soil amendment.

The Rum Production Process

Molasses Receiving and Storage. Diageo USVI currently plans to receive molasses required for rum production via ocean-going tankers. The tankers will be equipped with pumps to transfer the molasses onshore to two molasses storage tanks located adjacent to the port. Each molasses storage tank is anticipated to store four million gallons of molasses.

The molasses will be pumped from the storage tanks to the main process site where it will undergo a dilution and sterilization process. Following this process, the molasses will be cooled using heat exchangers and the pH balance of the molasses will be adjusted by the addition of a sulfuric acid solution. The molasses will then be diluted with water down to an acceptable level for fermentation. A measured amount of nutrient salts will be added to the molasses to ensure efficient fermentation. The molasses will be separated into two solutions: one for use as feed for yeast and the other for fermentation. Yeast will metabolize the sugar contained in the molasses and generate the waste product of ethyl alcohol. Ethyl alcohol is the proper name for the vernacular ‘alcohol’ contained in alcoholic beverages.

Fermentation. The next step of the process is fermentation. A vial containing laboratory yeast culture is introduced into a small inoculation tank. A portion of the molasses solution prepared in the above-described manner will be combined with the yeast culture and maintained under conditions conducive for yeast propagation. A portion of this product will be used as feed for future yeast propagation. Another portion of the solution will be sent to tanks for fermentation. The fermentation tanks are covered and hermetically sealed. Carbon dioxide collects during fermentation and is removed, passed through a gas scrubber and then released into the atmosphere. The fermentation tanks will be outfitted with agitation and extraction pumps to ensure thorough and complete fermentation and to extract the fermented product to holding tanks for distillation. The fermentation tanks will be kept at a constant temperature optimal for fermentation by an external cooling system.

Distillation. Once the fermentation process is complete the solution is sent to connected tanks for distillation, which separates and purifies ethanol from the fermenter product stream. The distillation

process uses five columns and a vacuum process to refine different qualities of rum that yield different tastes to the final bottled rum.

The first column separates unwanted components in the fermented solution, which consist mainly of water, dissolved salts, and other inert solids. The second column is used to increase the overall alcoholic concentration of the rum by removing additional water from the solution. In the third column, the concentrated alcohol is fed with large quantities of water, which washes the alcohol and serves to liberate a set of impurities from the main bulk of the alcohol. The impurities accumulate at the top of the column and are extracted as required. In the fourth column, the diluted alcohol from the previous column is concentrated and further impurities are extracted to refine the alcohol. The alcohol produced in this column will be used for making light rum, which has a more subtle taste and lesser complexities of flavor than medium or dark rum distillates. The fifth column is the last stage in the distillation process and is used for making an extremely pure form of alcohol, which is almost flavorless. This alcohol is used when blending rums.

The first, second and fifth columns are operated under vacuums, which lower the boiling points of the liquids in these columns. The third and fourth columns are operated under pressure, thus elevating the boiling point temperatures of the liquids in these columns. The vapors produced at the top of the pressurized columns are at a higher temperature than the boiling liquids in the vacuum columns. The advantages of this unique vacuum/pressure system are a reduction of steam consumption, promoting efficiency, reducing by-products contained in the rum and allowing for flexibility in flavoring the rum.

Distillery Washwater Treatment System. The byproducts of the distillation process, referred to as aqueous, molasses receiving and storage effluent, are to be processed in a washwater treatment system so as to (i) recover valuable byproducts, (ii) enable the recycling of as much of the water as practicable, by producing an outlet stream which meets TPDES standards and (iii) minimize solid waste generation.

Rum Tanks and Barrel Filling at the Distillery. The rum distillate, at approximately 190 proof, will be surged in a series of tanks, mixed with water and diluted down to 150 proof and then filled into barrels. Product storage tanks sufficient for the forecast level of production under the Diageo Agreement will be used to store rum before and after barrel filling. All tanks will be installed outdoors on reinforced footings in a concrete slab area. Pumps will be supplied which will allow rum to be transferred between product storage tanks and the barrel dumping and filling operations. Filled barrels will be transported by truck to the Warehouse Site for storage and aging.

Barrel Maturation at the Warehouse Site. The aged rum will be stored in barrels which will be placed on pallets and stacked. The rums will be aged in accordance with Diageo USVI's product quality specifications. At the completion of aging, barrels will be returned by truck to the Distillery Site for further disposition.

Barrel Emptying and Shipping. At the completion of rum aging, full barrels returned to the Distillery Site will be emptied by an automated dump and fill system into product storage tanks. This aged rum will then be loaded as required into isotank containers to be transported to the rum's final destination outside of the Virgin Islands.

Diageo Service Agreement

Diageo USVI entered into a Service Agreement (the "Service Agreement") with Diageo North America, Inc., Diageo Americas Supply, Inc. and Diageo Canada, Inc. (except for Diageo, collectively, the "Service Providers") as of June 17, 2008. The Service Agreement provides for the Service Providers to provide various services, including project general administration, treasury and financial services,

corporate relations, information technology and legal, human resources and other corporate services in support of the Diageo Project in consideration for annual payment of fees invoiced to Diageo USVI in accordance with the Service Agreement. The agreement is expected to stay in place so long as the Service Providers continue rendering services to Diageo USVI. Diageo USVI has the right to terminate the Service Agreement with immediate effect upon notice to Service Providers.

Compliance with Diageo Group Standards

The Diageo Group has a corporate commitment to reduce its carbon footprint and apply sound, “green” environmental principles to any new construction project, including the Diageo Project. The Distillery will be designed in accordance with “LEED” (Leadership in Energy and Environmental Design) principles. Environmental stewardship will be incorporated into every aspect of the facility’s design and operation. To the greatest extent practicable, recycling or reclaiming materials is part of the distillery process to reduce or eliminate the amount of waste from the Distillery.

The Diageo Group also is committed to industry objectives through its involvement with the Distilled Spirits Council of the United States (“DISCUS”) and the Customs Trade Partnership Against Terrorism (“C-TPAT”). The design of the Distillery will comply with manufacturing standards established by DISCUS. DISCUS is the national trade association representing American’s leading distillers and nearly 80 percent of all distilled spirit brands sold in the United States. An industry code of ethics and voluntary industry standards have been developed by DISCUS for distilled spirits production plants, including storage and warehouse facilities, in an effort to establish principles and practices that require social responsibility in advertising and marketing as well as plant operations. For plant operations, these standards address protection practices, alcohol handling, electrical systems, equipment handling, regular facility maintenance and inspections, and emergency planning. They detail potentially dangerous situations with the various plant operations and how to mitigate emergencies through protection practices, handling, fire protection, or other strategies.

The Diageo Project contractors are required to work with Diageo USVI to establish effective security measures in accordance with the requirements of the C-TPAT, as well as to comply with Renaissance policies and procedures approved by the Department of Homeland Security. The Diageo Group’s global standards with respect to hazardous materials, fire prevention, environmental standards and security, among other things, are applied to all of the Diageo Group’s assets and those same standards will apply to the facilities built as part of the Diageo Project.

Insurance Coverage During Operation

Once Diageo USVI assumes possession of the Diageo Project upon completion of construction, and throughout the term of its operation, Diageo USVI shall be responsible for maintaining insurance on the Diageo Project. Pursuant to the Diageo Agreement, Diageo USVI has agreed to maintain commercially reasonable insurance (either as part of Diageo plc’s global insurance program or on a stand-alone basis) against the risks of hurricane, earthquake, fire or other damage to the Diageo Project that might result in a commercially significant reduction in the output of rum that can be produced at the Diageo Project. Furthermore, Diageo USVI has agreed to rebuild the Diageo Project as soon as possible following the occurrence of an event that is insurable at the time of occurrence of the event at commercially reasonable rates.

MATCHING FUND REVENUES

General

The Secretary of the Treasury is directed to make certain transfers to the Government of certain excise taxes imposed and collected under the Code in any Fiscal Year on certain products produced in the Virgin Islands and exported to the United States mainland from the Virgin Islands. Rum is the only product presently produced in the Virgin Islands and exported to the United States that is subject to federal excise tax which qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code. The term “Matching Fund Revenues” is used to denote these payments.

The Treasury collects the federal excise taxes levied on rum exported to the United States from the Virgin Islands from the U.S. rum distributors on all rum that is shipped to the United States in bulk and from the Virgin Islands rum distributors on all rum that is bottled in the Virgin Islands and submits monthly reports of the federal excise tax revenues to the DOI.

In September of each year, the Governor requests a Matching Fund Revenue prepayment from the DOI that is calculated by the OMB based on an estimate of the amount of federal excise taxes to be collected in the ensuing Fiscal Year as well as any required adjustments. Based on the Governor’s request, the DOI calculates the amount of the federal excise taxes that will be transferred to the Virgin Islands and requests the Treasury to transfer the prepayment for the ensuing Fiscal Year to the Special Escrow Account of the Government held by the Special Escrow Agent prior to September 30 of the immediately preceding Fiscal Year. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS – Special Escrow Agreement/Diageo Special Escrow Agreement” and “– Flow of Funds.”

This prepayment is subject to subsequent adjustment based on the amount of Matching Fund Revenues actually collected by the Government and the amount of federal excise taxes actually collected by the Treasury during such Fiscal Year. Such adjustments are made to prepayment advances paid to the Government for the second succeeding Fiscal Year. Adjustment payments may also be requested by the Governor and made by the DOI during any Fiscal Year. The amount required to be remitted to the Government by the Secretary of the Treasury is limited to an amount no greater than the total amount of local duties, taxes and fees collected by the Government in the applicable Fiscal Year.

The federal excise tax on rum exports from the Virgin Islands to the United States currently accounts for all of the Matching Fund Revenues. To date, the only producer of rum in the Virgin Islands has been Cruzan. Pursuant to the Diageo Agreement, Diageo USVI has agreed to build the Diageo Project on St. Croix and to begin production of all of its Captain Morgan rum for export to the United States commencing in 2012. See “THE RUM INDUSTRY” and APPENDIX G – “Verification and Projection of Matching Fund Revenues on Rum Shipments to the U.S.”

Cover Over Rate

The federal excise tax rate and the Cover Over Rate are set by Congress and codified in Sections 5001(a)(1) and 7652(f) of the Code. The federal excise tax on distilled spirits produced in, or imported into, the United States has over the years ranged from \$10.50 per proof gallon to \$13.50 per proof gallon. Until 1984, the entire amount of such excise tax qualified for transfer to the Government. As part of the Deficit Reduction Act of 1984, Congress increased the federal excise tax on distilled spirits from \$10.50 per proof gallon to \$12.50 per proof gallon, but capped the Cover Over Rate at \$10.50 per proof gallon. As part of the Omnibus Budget Reconciliation Act of 1990, Congress again increased the federal excise

tax rate on distilled spirits to \$13.50 per proof gallon, but maintained the cap on the Cover Over Rate at \$10.50. As part of the Omnibus Budget Reconciliation Act of 1993, Congress increased the Cover Over Rate paid to the Government, through September 30, 1998, from \$10.50 per proof gallon to \$11.30 per proof gallon. As part of the Tax Relief Extension Act of 1999, Congress increased the Cover Over Rate to \$13.25 per proof gallon from July 1, 1999, through December 31, 2001. As part of the Job Creation and Worker Assistance Act of 2002, Congress extended the \$13.25 per proof gallon Cover Over Rate from January 1, 2002, through December 31, 2003. As part of the Working Families Tax Relief Act of 2004, Congress extended the \$13.25 per proof gallon Cover Over Rate from January 1, 2004, through December 31, 2005. As part of the Tax Relief and Health Care Act of 2006, Congress extended the \$13.25 per proof gallon Cover Over Rate from January 1, 2006, through December 31, 2007. As part of the Tax Extenders and Alternative Minimum Tax Relief Act of 2008, Congress again extended the \$13.25 per proof gallon Cover Over Rate from January 1, 2008, through December 31, 2009.

The rate of reimbursement is subject to change by Congress and no assurances can be given as to how, when or whether Congress might change the Cover Over Rate. Diageo USVI is permitted to terminate the Diageo Agreement and will have no further obligation to develop the Diageo Project in the event that the Cover Over Rate is reduced to less than \$10.50 per proof gallon of rum and will have no obligation to pay liquidated damages to the Government upon termination of the Diageo Agreement in such event.

Set forth below is a brief synopsis of the history of the federal excise tax rates and corresponding Cover Over Rates per proof gallon of rum since 1984.

| <u>Year</u> | <u>Excise Tax Rate*</u> | <u>Cover Over Rate*</u> | <u>Legislation</u> |
|-------------|-------------------------|--|--|
| 1984 | \$12.50 | Lesser of \$10.50 or the excise tax rate | The Deficit Reduction Act of 1984 |
| 1990 | \$13.50 | \$10.50 | Omnibus Budget Reconciliation Act of 1990 |
| 1993 | \$13.50 | \$11.30 | Omnibus Budget Reconciliation Act of 1993 |
| 1998 | \$13.50 | Lesser of \$10.50 or the excise tax rate | Section 7652(f) of the U.S. Code |
| 1999-2001 | \$13.50 | \$13.25 | Tax Relief Extension Act of 1999 |
| 2002-2003 | \$13.50 | \$13.25 | Job Creation and Worker Assistance Act of 2002 |
| 2004-2005 | \$13.50 | \$13.25 | Working Families Tax Relief Act of 2004 |
| 2006-2007 | \$13.50 | \$13.25 | Tax Relief and Health Care Act of 2006 |
| 2008-2009 | \$13.50 | \$13.25 | Emergency Economic Stabilization Act of 2008 |

* Per proof gallon.

MATCHING FUND REVENUES ARE DERIVED FROM CERTAIN EXCISE TAXES PAYABLE ON PRODUCTS, PRINCIPALLY RUM, PRODUCED IN THE VIRGIN ISLANDS AND IMPORTED INTO THE UNITED STATES. THERE CAN BE NO ASSURANCE THAT VIRGIN ISLANDS RUM PRODUCTION OR THE FEDERAL EXCISE TAX WILL BE MAINTAINED AT LEVELS SUFFICIENT TO GENERATE EXCISE TAXES IN AMOUNTS SUFFICIENT TO PAY THE DEBT SERVICE ON BOTH THE SENIOR BONDS AND THE SERIES 2009A BONDS. SEE "THE RUM INDUSTRY" AND "CERTAIN BONDHOLDER RISKS."

Historical Matching Fund Revenues

The following is a summary of Matching Fund Revenues received by the Government for Fiscal Years 2003 through 2008.

| Matching Fund Revenues Fiscal Years 2003 – 2008 (\$000's) | | | | | | |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
| Advance Received for Current Fiscal Year | \$70,878 | \$63,097 | \$63,635 | \$87,864 | \$79,460 | \$80,746 |
| Payment Adjustment for 2 Fiscal Years Prior | (481) ¹ | 2,752 ² | 3,326 ³ | (9,152) | (8,165) | (7,582) ⁴ |
| Estimated Adjustment for 2 Fiscal Years Later | (6,294) | 9,152 | 8,165 | (7,833) | 15,415 | 18,775 |
| Actual Matching Fund Revenues for Current Fiscal Year | <u>\$64,103</u> | <u>\$75,001</u> | <u>\$75,126</u> | <u>\$70,879</u> | <u>\$86,710</u> | <u>\$91,939</u> |
| Advance Received for Current Fiscal Year | \$70,878 | \$63,097 | \$63,635 | \$87,864 | \$79,460 | \$80,746 |
| Less: Matching Fund Bonds Debt Service | 40,049 | 40,062 | 41,666 | 47,131 | 47,694 | 47,694 |
| Surplus After Payment of Debt Service ⁵ | <u>\$30,829</u> | <u>\$23,035</u> | <u>\$21,969</u> | <u>\$40,733</u> | <u>\$31,766</u> | <u>\$33,052</u> |

¹ Adjustment for earnings vs. advance for Fiscal Year 2001.

² Adjustment for earnings vs. advance for Fiscal Years 2002 and 2003. Fiscal Year 2002 advance was calculated as \$63,089,000 instead of \$60,121 resulting in a difference of \$2,968,000.

³ Represents the Fiscal Year 2004 adjustment of \$2,968,000 (relating to the difference from Fiscal Year 2002) less the Fiscal Year 2003 adjustment of \$6,294,000.

⁴ Represents a Fiscal Year 2007 adjustment of \$15,415,000 less the Fiscal Year 2006 adjustment of \$7,833,000.

⁵ Surplus does not reflect any adjustments.

Source: United States Virgin Islands Office of Management and Budget.

The following table shows the subsidy and support payments made by the Government to Cruzan in support of its rum production efforts over the past six years.

| Subsidy and Support Payments Calendar Years 2003-2008 | | | | | | |
|--|------------------|------------------|------------------|------------------|-------------------|-------------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
| Rum Promotion | 1,358,68 | 2,246,601 | 1,982,402 | 2,412,691 | 2,200,000 | 2,204,000 |
| Marketing Support | - | - | - | - | 2,796,000 | 2,777,863 |
| Molasses Subsidy | 3,477,651 | 4,000,000 | 4,400,000 | 6,900,000 | 15,261,000 | 13,700,000 |
| Total | <u>4,836,335</u> | <u>6,246,601</u> | <u>6,382,402</u> | <u>9,312,691</u> | <u>20,257,000</u> | <u>18,681,863</u> |

Source: United States Virgin Islands Office of Management and Budget.

Verification and Projection of Matching Fund Revenues

IHS Global Insight (USA), Inc. (“Global Insight”), an economic consulting firm, was engaged to verify Matching Fund Revenues received by the Government from Fiscal Year 1992 through Fiscal Year 2008 and to project Matching Fund Revenues for Fiscal Years 2009 through 2038. A copy of their report is attached to this Official Statement. See APPENDIX G – “Verification and Projection of Virgin Islands Matching Fund Revenues from Rum Shipments to the U.S.” Global Insight’s review of the records that document the Matching Fund Revenue collection and transfer process concluded that annual Matching Fund Revenues transferred to the Virgin Islands during the Fiscal Year 1992 through Fiscal Year 2008 period were consistent with excise taxes collected from United States distillers on purchases of bulk rum produced in the Virgin Islands and Customs duties levied on cased Virgin Islands rum.

In connection with its revenue projections, Global Insight developed two models to project future Matching Fund Revenues. The first model, the Constant Market Share Model, projects Matching Fund Revenues as a function of historical rum excise tax revenues, resulting in projected Matching Fund Revenues of approximately \$211 million in Fiscal Year 2012, when the shipments of rum from the Diageo Project commence, to approximately \$356 million in Fiscal Year 2024 through Fiscal Year 2038, when both the Cruzan plant and the Diageo Project are expected to reach full production capacity. The second model, the Growing Market Share Model, bases future revenue projections on historical rum production in the Virgin Islands and forecasts Matching Fund Revenues growing from approximately \$206 million in Fiscal Year 2012, when shipments of rum from the Diageo Project commence, to \$356 million in Fiscal Years 2019 through 2038, when both the Cruzan plant and the Diageo Project are expected to reach full production capacity.

Both of these models assume that (i) a constant \$13.25 per proof gallon rate will be eligible for transfer to the Government, (ii) both Cruzan and Diageo USVI will be able to maintain their respective current shares of the U.S. market, (iii) after reaching capacity, production at both companies will remain constant through 2038, and (iv) Diageo USVI will only ship nine million proof gallons in Fiscal Year 2012.

Global Insight also prepared an alternative projection assuming that the Cover Over Rate paid to the Government per proof gallon was \$10.50 rather than the current rate of \$13.25 per proof gallon. Based on this alternative model, Matching Fund Revenues were projected to be approximately \$167 million in 2012 and approximately \$282 million in Fiscal Years 2024 through 2038, when both the Cruzan plant and Diageo USVI plant are expected to reach full production capacity. See APPENDIX G – “Verification and Projection of Virgin Islands Matching Fund Revenues from Rum Shipments to the U.S.” The following table presents Matching Fund Revenues, including Diageo Matching Fund Revenues, projected by Global Insight for Fiscal Years 2009 to 2017, and debt service coverage calculations for the Senior Bonds and the Series 2009A Bonds assuming a cover over rate of \$13.25 per proof gallon and a lower alternative cover over rate of \$10.50 per proof gallon for that same time period.

Projected Matching Fund Revenues and Pro Forma Debt Service Coverage
((\$000's))

Calendar Year Ending December 1

| | <u>2009</u> | <u>2020</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <u>Projected Matching Fund Revenues</u> | | | | | | | | | | |
| <u>IHS Global Insight Constant Market Share Projection</u> | | | | | | | | | | |
| Cruzan VIRIL | \$88,989,198 | \$90,063,276 | \$90,249,405 | \$ 91,798,747 | \$ 94,740,811 | \$ 97,848,843 | \$101,048,088 | \$104,132,323 | \$107,180,418 | \$110,208,894 |
| Captain Morgan | - | - | - | 119,250,000 | 172,216,698 | 177,866,373 | 183,681,856 | 189,288,275 | 194,829,000 | 200,334,063 |
| Total | 88,989,198 | 90,063,276 | 90,249,405 | 211,048,747 | 266,957,509 | 275,715,216 | 284,729,944 | 293,420,597 | 302,009,418 | 310,542,957 |
| <u>IHS Global Insight Alternative Projection: Lower Cover-Over Rate</u> | | | | | | | | | | |
| Cruzan VIRIL | 70,519,742 | 71,370,898 | 71,518,396 | 72,746,177 | 75,077,624 | 77,540,592 | 80,075,844 | 82,519,954 | 84,935,425 | 87,335,350 |
| Captain Morgan | - | - | - | 94,500,000 | 136,473,609 | 140,950,711 | 145,559,207 | 150,002,029 | 154,392,792 | 158,755,295 |
| Total | 70,519,742 | 71,370,898 | 71,518,396 | 167,246,177 | 211,551,234 | 218,491,303 | 225,635,050 | 232,521,983 | 239,328,218 | 246,090,645 |
| Net Debt Service on Senior Indenture Bonds ¹ | 48,274,875 | 48,307,018 | 48,340,610 | 48,377,620 | 48,421,938 | 48,296,738 | 48,503,219 | 48,434,125 | 48,470,494 | 48,501,188 |
| Net Debt Service on Subordinate Indenture Bonds (Diageo Project) ² | - | - | - | 21,002,550 | 21,002,550 | 24,497,550 | 24,495,475 | 24,493,325 | 24,493,975 | 24,494,875 |
| Total Net Debt Service | \$48,274,875 | \$48,307,018 | \$48,340,610 | \$69,380,170 | \$69,424,488 | \$72,794,288 | \$72,998,694 | \$72,927,450 | \$72,964,469 | \$72,996,063 |
| <u>Debt Service Coverage Based on:</u> | | | | | | | | | | |
| <u>IHS Global Insight Constant Market Share Projection</u> | | | | | | | | | | |
| Senior Indenture Coverage | 1.84 | 1.86 | 1.87 | 4.36 | 5.51 | 5.71 | 5.87 | 6.06 | 6.23 | 6.40 |
| Subordinate Indenture Coverage ³ | - | - | - | 3.37 | 5.89 | 5.29 | 5.52 | 5.75 | 5.98 | 6.20 |
| Aggregate Coverage | 1.84 | 1.86 | 1.87 | 3.04 | 3.85 | 3.79 | 3.90 | 4.02 | 4.14 | 4.25 |
| <u>IHS Global Insight Alternative Projection: Lower Cover-Over Rate</u> | | | | | | | | | | |
| Senior Indenture Coverage | 1.46 | 1.48 | 1.48 | 3.46 | 4.37 | 4.52 | 4.65 | 4.80 | 4.94 | 5.07 |
| Subordinate Indenture Coverage ³ | - | - | - | 2.20 | 4.19 | 3.78 | 3.96 | 4.15 | 4.32 | 4.50 |
| Aggregate Coverage | 1.46 | 1.48 | 1.48 | 2.41 | 3.05 | 3.00 | 3.09 | 3.19 | 3.28 | 3.37 |

¹ Includes outstanding Matching Fund Revenue Bonds, Series 1998A, 1998E and 2004A.

² Interest on the Series 2009A Bonds is assumed at 8.50% (the maximum allowable tax-exempt interest rate pursuant to the 2009 Virgin Islands Act No. 7062).

³ Subordinated Indenture coverage is calculated as Diageo Matching Fund Revenues less Senior Indenture debt service versus Diageo Project debt service.

THE U.S. SPIRITS INDUSTRY

According to the Beverage Information Group's 2008/2009 Liquor Handbook (February 2009) (the "Liquor Handbook"), in 2008, total distilled spirits consumption in the United States increased 2.1% from 2007 to 185.5 million 9-liter cases. This gain marks the eleventh consecutive year of volume growth for the distilled spirits industry. Volume growth is forecasted to continue over the next five years. Total distilled spirits consumption is expected to reach 188.0 million 9-liter cases by the end of 2009, which is an increase of 1.3% from 2008. The Liquor Handbook is a comprehensive sources of information on U.S. spirits and sales trends. It includes consumption and projection information by category and by market, tracks leading brands, and reports historical data.

Two important historical trends cited in the Liquor Handbook include the more than 10 years of rapid expansion by above-premium tier spirits. Another more recent trend noted is that the majority of market launches in 2007 involved either fruit flavors or high-quality or reserve line extensions across almost every spirits category. New flavors are not only stimulating growth in categories like vodka and rum, but also are influencing other categories.

Continued downward pressure on the U.S. economy has had little negative impact on Total Beverage Alcohol ("TBA") growth, but has slowed growth in ultra premium spirits. Although 2008 was actually the low point, with TBA servings growth estimated at 1.7% in 2009, TBA servings growth is expected to rise slightly to 2.0% in 2009. While the current economic environment has dampened growth in the premium sector across all consumer goods, it has not halted the demand for premium products. Premium and ultra premium tiers are expected to continue to outperform the overall market and drive growth in spirits. Although ultra premium spirits growth is estimated to have slowed to 3.5% in 2008, and is forecast to be slightly higher in 2009, at 3.7%, these growth rates are expected to outpace the lower tiers of spirits. Beer growth is expected to return to the more historical level of around 1% growth, but will continue to lose share to spirits and wine. Long-term demographics and consumer trends remain favorable for premium spirits and wine.

THE RUM INDUSTRY

The rum industry has sustained growth since the mid-1990's. The U.S. rum consumption has been rising for thirteen consecutive years since 1995. The U.S. rum category has had cumulative annual growth rate ("CAGR") of 2.4% over this time period. The two leading brands in the premium category are Bacardi and Captain Morgan, which is produced by Diageo America Supply, and the rum for both brands is currently produced in Puerto Rico. Diageo North America, Inc. has been steadily increasing its share of the rum market due to the strong growth of Captain Morgan, which has enjoyed a CAGR of 8.4% in volume over the last five years. In fact, Captain Morgan continues to have the strongest growth rate among the Top 10 Premium Spirit Brands. In 2008, it had a global growth rate of 6%, following a growth rate of 7% in 2007. In 2007, Captain Morgan was the 3rd largest spirits brand in the United States.

This transition to premium brands has mirrored the nation's demographics as the now-aging baby boom generation dominates consumption, replacing the habits of the previous generations. Meanwhile, succeeding cohorts have more disposable income and have clearly driven the bar and restaurant market for premium cocktails. Total whiskey consumption, including American and imported, has declined while rum and vodka consumption has increased. Rum's share of the market has increased each year since 1992.

Distilled Spirits Market Share

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Whiskeys | 27.5% | 26.8% | 26.1% | 25.5% | 24.9% | 24.6% |
| U.S. Whiskeys | 11.8 | 11.6 | 11.4 | 11.2 | 10.9 | 10.9 |
| Scotch | 5.7 | 5.5 | 5.3 | 5.1 | 5.0 | 4.9 |
| Other Whiskeys ¹ | 10.0 | 9.7 | 9.4 | 9.2 | 9.0 | 8.9 |
| Non-Whiskeys | 72.5% | 73.2% | 73.9% | 74.5% | 75.1% | 75.2% |
| Rums | 12.3 | 12.6 | 12.9 | 12.9 | 13.2 | 13.3 |
| Vodka | 26.2 | 26.7 | 27.1 | 28.0 | 28.9 | 29.7 |
| Gin | 6.9 | 6.6 | 6.4 | 6.2 | 6.2 | 6.1 |
| Others ² | 27.1 | 27.3 | 27.5 | 27.4 | 26.8 | 26.5 |

NOTE: Numbers may not add to totals due to rounding.

¹ Includes Canadian and Irish Whiskeys.

² Includes brandies, cordials, liqueurs, tequila and prepared cocktails.

Source: 2008/2009 Adams Liquor Handbook.

Rum Production in the Virgin Islands

Rum currently produced in the Virgin Islands is exported to the United States mainland, primarily in bulk, and sold to local and regional bottlers and rectifiers for sale under a variety of private label and regional brand names, and to certain other bottlers for use in prepared cocktails, liqueurs and drink mixes. In recent years, Virgin Islands rum also has entered the more lucrative branded segment. Approximately 7.12 million proof gallons of rum were exported from the Virgin Islands to the United States in calendar year 2008.

Cruzan

Rum has been produced in the Virgin Islands for more than 300 years. All of the rum currently produced in the Virgin Islands is distilled by Cruzan VIRIL, Ltd. (formerly known as the V.I. Rum Industries Limited), the rum production company located in St. Croix that currently generates all of the Matching Fund Revenues. Cruzan was founded in 1946 and has produced rum consistently since its inception. The Cruzan facilities consist of twelve principal buildings of approximately 160,000 square feet on 33 acres. Total production capacity at the Cruzan facility is approximately 9,000,000 proof gallons per year. For Fiscal Year 2008, shipments from Cruzan to the U.S. were approximately 7,990,000 proof gallons.

Cruzan Rum offers a wide range of dark (aged) and white rum as well as flavored varieties, which puts it into a unique position compared to many competitors. The range was expanded in 2007 with the launch of Cruzan Black Cherry & Guava in 2008. Other extensions of the Cruzan Rum line are being evaluated by Beam Global Spirits & Wine and Cruzan VIRIL, Ltd. for future growth. The ownership of Cruzan has changed a number of times during the past decade and a half. Todhunter International, Inc. (“Todhunter”), a Delaware corporation with principal executive offices located in West Palm Beach, Florida, acquired Cruzan in February of 1994. In 1999, Angostura Limited (“Angostura”), a Trinidad-based distiller, acquired more than 60% of Todhunter but sold its stake in Todhunter to V&S (V&S Absolut Spirits) in 2005. V&S acquired the remaining outstanding shares of Cruzan VIRIL Ltd in 2006.

In July 2008, Pernod Ricard, the second largest spirits company in the world, acquired V&S. On August 27, 2008, Pernod Ricard announced it planned to sell some of its assets to reduce its debt burden and streamline assets. On October 1, 2008, Pernod Ricard sold Cruzan to Fortune Brands, Inc., a leading

consumer brands company with annual sales exceeding \$8 billion. Fortune Brands' operating companies have premier brands and leading market positions in distilled spirits, home and hardware and gold products. In meetings with the Governor and with employees of Cruzan, Fortune Brands has expressed its desire to continue to build and expand rum production in the Virgin Islands. In addition, the Governor has announced an intent to explore new and cooperative ways for the Government to assist in the development of the rum industry in the Virgin Islands.

Cruzan has been notified by the EPA that low levels of toxicity have been detected in the discharge from its distillery operations, which may be harmful to certain marine life exposed thereto. Cruzan and the Government are currently working with the DPNR and the EPA to identify appropriate mitigation measures. By July 1, 2009, Cruzan is expected to submit to the EPA its proposed treatment options that, once implemented, would result in the cessation of its effluent discharge into the ocean. Cruzan's TPDES Permit, which expires on March 1, 2013, requires Cruzan to complete the design and engineering phase of this project by March 1, 2010, construction by December 1, 2011, and implementation by March 1, 2012.

In 2008, Pernod Ricard, Cruzan and the Government entered into negotiations regarding a Memorandum of Understanding pursuant to which the Government would provide Cruzan with certain additional economic development incentives similar to those in the Diageo Agreement in exchange for an increase in the production and export of Cruzan rum to the United States resulting in additional Matching Fund Revenues to the Government. The incentives would be designed primarily to address the environmental issues described above and to provide funds for additional marketing support to Cruzan. Before the agreement could be finalized, Pernod Ricard sold Cruzan to Fortune Brands Inc. The Government has had preliminary discussions with Fortune Brands Inc. and Cruzan regarding entering into a similar agreement. Until a definitive agreement is executed, there can be no guarantee that there will be financing for the necessary environmental mitigation required by EPA. There can be no assurance that the funding of such mitigation measures by Cruzan or liability and costs associated with possible enforcement actions by the EPA will not adversely affect Cruzan's financial condition or results of operation.

Matching Fund Revenues attributed to the excise taxes imposed and collected on rum produced by Cruzan are not available to pay debt service on the Series 2009A Bonds. See "SECURITY AND SOURCE OF PAYMENT OF THE SERIES 2009A BONDS" and "MATCHING FUND REVENUES."

Diageo USVI

The Government and Diageo USVI have entered into the Diageo Agreement pursuant to which Diageo USVI has agreed to construct and operate a rum production and storage facility on St. Croix and to produce in the Virgin Islands all the rum used in Captain Morgan branded products sold in the U.S. beginning in January 1, 2012. Currently, all rum used in Captain Morgan branded products sold in the U.S. is procured through an exclusive supply contract with a Puerto Rican third-party supplier, which expires on December 31, 2011. In accordance with the Diageo Agreement, upon completion of the Diageo Project, Diageo USVI will begin the production of rum that will be used to manufacture all Captain Morgan branded products sold in the U.S. beginning in January 2012 in St. Croix. See "THE DIAGEO AGREEMENT."

Based on current projections from Diageo USVI, the Government expects Diageo USVI to produce 9 million proof gallons of rum in Fiscal Year 2012 and reach capacity of 18 million proof gallons in Fiscal Year 2024. Assuming a Cover Over Rate of \$13.25 per proof gallon, Diageo Matching Fund Revenues should be approximately \$119 million in Fiscal Year 2012 and approximately \$239 million in Fiscal Year 2024.

Pursuant to the Diageo Agreement, only that portion of Matching Fund Revenues collected on rum produced by Diageo USVI, which are referred to herein as the Diageo Matching Fund Revenues, are pledged to secure the Series 2009A Bonds. Further, to the extent that Matching Fund Revenues collected on rum produced by Cruzan are insufficient to satisfy all of the payment obligations relating to the Senior Bonds, Diageo Matching Fund Revenues will be used to satisfy any shortfall before being transferred by the Trustee to the Diageo Special Escrow Account.

Molasses Subsidy Payments

Molasses, the principal ingredient of rum, is a commodity traded in the international commodity markets. The price of molasses is therefore subject to fluctuation based upon supply and demand. All of the molasses used by Cruzan and expected to be used by Diageo USVI is purchased on such commodity markets from sources outside the Virgin Islands.

The Government maintains a program, first established in 1967, by which it stabilizes the cost of molasses to Virgin Islands rum producers to compensate for the demise of the local sugar cane industry and ensure the competitive pricing of rum produced in the Virgin Islands. The effect of the molasses subsidy payments is to maintain the competitive position of Virgin Islands rum producers relative to the rum producers in other countries where local molasses supplies are readily available.

The following table sets forth the molasses subsidies that have been provided by the Government to the Virgin Islands rum producers since 1997. The molasses subsidy payments in Fiscal Years 2007 and 2008 were higher than in previous years due to the significant increase in the cost of fuel, resulting in an increase in shipping costs, the purchase of a larger quantity of hi-test molasses instead of blackstrap molasses in an effort to reduce the negative environmental impact from rum manufacturing waste disposal, and the purchase of a larger quantity of molasses due to increased demand for rum.

Molasses Subsidy Payments **1997 to 2007**

| <u>Fiscal Year</u> | <u>Molasses Gallons</u> | <u>Dollar Amount Subsidy</u> |
|---------------------------|------------------------------------|---|
| 1997 | 5,296,588 | \$ 2,175,536 |
| 1998 | 8,289,330 | 1,300,000 |
| 1999 | 7,763,675 | 2,969,725 |
| 2000 | 8,790,630 | 1,955,253 |
| 2001 | 8,622,054 | 2,570,733 |
| 2002 | 8,607,398 | 2,558,300 |
| 2003 | 6,765,893 | 3,477,651 |
| 2004 | 7,065,528 | 4,000,000 |
| 2005 | 7,214,391 | 4,400,000 |
| 2006 | 8,731,734 | 6,900,000 |
| 2007 | 8,322,254 | 8,373,641 |
| 2008 | 9,089,615 | 11,678,677 |

The molasses subsidy is administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. The Molasses Subsidy Fund consists of amounts appropriated from time to time by the Legislature exclusively for such purpose. Amounts available in the Molasses Subsidy Fund are requisitioned by Cruzan on a quarterly basis by certified vouchers to the Commissioner of Finance upon receipt of each molasses shipment. The Commissioner of Finance verifies the accuracy of such vouchers and makes payment to Cruzan to the extent funds are available in

the Molasses Subsidy Fund. The Governor includes in each Annual Budget submitted for approval to the Legislature a request for appropriation for the Molasses Subsidy Fund based upon an estimate of molasses to be acquired by local producers for the next Fiscal Year. In the event of a deficiency in the Molasses Subsidy Fund, the Commissioner of Finance would seek legislative appropriation of additional funds, as required, from the Legislature. The Legislature is not obligated to appropriate such amounts. To date, however, the Legislature has not failed to appropriate an amount sufficient to satisfy the obligations of the Molasses Subsidy Fund.

Cruzan currently receives the molasses subsidy from the Government through the Molasses Subsidy Fund. Diageo USVI will receive the Molasses Subsidy payments under the Diageo Agreement directly from the Diageo Matching Fund Revenues.

St. Croix Molasses Pier

In 1999, the Government completed construction of the St. Croix Molasses Pier, which has increased the capacity for deliveries and storing of molasses and has improved the safety and availability of molasses cargoes to the island of St. Croix. The improvements consist of the construction of a 560 foot sheet pile bulkhead, dredging of the harbor to a depth of 32 feet, construction of a concrete apron for loading and unloading the tankers, installation of apron lighting and potable water lines, security fencing, asphalt and molasses pipelines and a partial roadway complete with lighting and signage. A highway connecting the St. Croix Molasses Pier to the Container Port was completed in 2002. The on-pier molasses storage capacity for the Virgin Islands rum producer currently is 3 million gallons.

The St. Croix Molasses Pier improvements have allowed the docking of larger cargo vessels and the delivery of larger molasses shipments thereby reducing the per gallon shipping cost of imported molasses. It is expected that these improvements will enable the Government to continue to provide favorable conditions within the Virgin Islands for both producers of rum to maintain their competitiveness in the United States rum market. Notwithstanding the improvements to the St. Croix Molasses Pier, it is Diageo USVI's current intention to utilize the pier facilities at the Park for the delivery of its molasses shipments, which facilities are reasonably expected to accommodate all of Diageo USVI's needs.

CERTAIN BONDHOLDER RISKS

THE PURCHASE AND OWNERSHIP OF THE SERIES 2009A BONDS MAY INVOLVE INVESTMENT RISKS. PROSPECTIVE PURCHASERS OF THE SERIES 2009A BONDS ARE URGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. THIS SECTION ENTITLED “CERTAIN BONDHOLDER RISKS” DOES NOT PURPORT TO PROVIDE INVESTORS WITH A COMPREHENSIVE ENUMERATION OF ALL POSSIBLE INVESTMENT RISKS. THE FACTORS SET FORTH BELOW, AMONG OTHERS, MAY AFFECT THE SECURITY FOR THE SERIES 2009A BONDS. IN ADDITION TO POSSIBLE ADVERSE EFFECTS ON SECURITY FOR THE SERIES 2009A BONDS, PURCHASERS SHOULD BE AWARE THAT THESE FACTORS, AMONG OTHERS, MAY ADVERSELY AFFECT THE MARKET PRICE OF THE SERIES 2009A BONDS IN THE SECONDARY MARKET. SEE ALSO “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS.”

Diageo Matching Fund Revenues Sole Security for the Series 2009A Loan Note

The Series 2009A Bonds are secured solely by the Diageo Trust Estate, including the Series 2009A Loan Note. The Series 2009A Loan Note is a special limited obligation of the Government. The Government has not pledged its full faith and credit to the payment of the Series 2009A Loan Note. The Series 2009A Loan Note is secured solely by the Diageo Matching Fund Revenues, which will be derived solely from the sale of rum produced by Diageo USVI and exported to the United States. If Diageo USVI were to fail to complete and operate the Diageo Project, there would be no Diageo Matching Fund Revenues to pay debt service on the Series 2009A Bonds. In addition, if Diageo USVI fails to meet its production targets, Diageo Matching Fund Revenues will be less than projected and may not be sufficient to pay debt service on the Senior Bonds and the Series 2009A Bonds.

Prior Lien on Diageo Matching Fund Revenues

Senior Bonds previously issued by the Authority have a prior lien on all Matching Fund Revenues, including the Diageo Matching Fund Revenues. Currently, Matching Fund Revenues are derived solely from the export by Cruzan of rum to the mainland United States. If the Matching Fund Revenues received in connection with the export of Cruzan rum to the United States are not sufficient to make all required payments under the Senior Indenture, Diageo Matching Fund Revenues will be applied for payments pursuant to the Senior Indenture prior to their application to payments pursuant to the Subordinated Indenture. Further, no Matching Fund Revenues derived from exports of Cruzan rum are pledged to, and cannot be used to pay debt service on, the Series 2009A Bonds.

Limited Production Source

All the rum currently produced in the Virgin Islands is produced by a single producer, Cruzan. The ownership of Cruzan has changed a number of times in the past decade. No assurance can be given that the current owner or any future owner will continue rum production in the Virgin Islands. Once Diageo USVI begins producing rum in the Virgin Islands, there can be no assurance that Cruzan will continue to operate in the Virgin Islands or that it will continue to produce rum in sufficient quantities to generate Matching Fund Revenues sufficient to meet debt service on the Senior Bonds. There also can be no assurance that another producer will not enter the bulk rum market and compete with Cruzan or Diageo USVI or that Cruzan or Diageo USVI will maintain their current and planned production levels. See “THE RUM INDUSTRY.”

Diageo Project Risks

Construction Risks

Diageo USVI has leased property and/or purchased property on which it plans to build the Distillery, the Washwater Treatment Facility and the Warehouses. While guaranteed maximum price contracts have been entered into with contractors who are experienced in constructing facilities of the type planned, there can be no assurance that the Diageo Project will be completed on time or within budget. Delays in the commencement of rum production could delay exports of rum to the U.S. mainland and the collection of the Diageo Matching Fund Revenues. The Diageo Matching Fund Revenues are the only source of funds to pay debt service on the Series 2009A Bonds.

The Government has agreed in the Diageo Agreement to make a grant to Diageo USVI to pay the costs of the Diageo Project. The total costs of the Diageo Project to be paid by the Government, including the grant to Diageo USVI, capitalized interest on the Series 2009A Bonds, funding of the Series 2009A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2009A Debt Service Reserve Requirement and to pay the costs of issuing the Series 2009A Bonds, may not exceed \$250 million. Current estimates for the total costs of the Diageo Project are approximately \$184 million. If the costs of the Diageo Project were to exceed current estimates and the \$250 million maximum grant from the Government were insufficient to cover such costs, no assurances can be given that Diageo USVI would complete the Diageo Project or would have the resources to complete the Diageo Project or that the Authority or the Legislature would make additional funds available to complete the Diageo Project. Additionally, final design plans for the Diageo Project have not been completed, the completion of which may result in additional costs associated with construction.

Required Permits

Diageo USVI currently does not have all required Virgin Islands and federal permits to proceed with and complete the development and construction of the Diageo Project. Certain permits frequently take a significant amount of time to obtain. In particular, Diageo USVI does not expect to obtain a building permit until August 2009. If Diageo USVI pursues design plans that materially deviate from those contained in permit applications Diageo USVI has submitted or in permits Diageo USVI has already obtained, Diageo USVI may be required to obtain permit amendments or submit new permit applications. Additionally, some permits may be issued with conditions, the compliance with which could result in delays to construction as well as additional costs. No assurances can be given that Diageo USVI will receive all necessary permits or that all necessary permits will be received in time to complete the construction and commence operation of the Diageo Project as planned in 2010, so that the export of rum can commence as planned in 2012. Delay in the shipment of rum to the U.S. mainland and related inability to generate Diageo Matching Fund Revenues could adversely affect the Authority's ability to pay debt service on the Series 2009A Bonds.

Operational Risks

The Series 2009A Bonds are payable solely from the Diageo Matching Fund Revenues and any delay in production or interruption of production of rum at the Diageo Project facilities could cause a reduction in Diageo Matching Fund Revenues and an inability of the Authority to pay debt service on the Series 2009A Bonds. A delay in production or interruption of production of rum may be caused by, for example, damage to the ship unloading station at the Distillery Site, which renders it unavailable for the receipt of molasses. See "THE DIAGEO PROJECT - Distillery and Washwater Treatment Facility." Diageo USVI is not obligated to pay debt service on the Series 2009A Bonds.

Leasing Risk

Diageo USVI has executed a lease agreement with Renaissance to lease the Distillery Site. The lease agreement provides for a leasehold term of up to 60 years, assuming the exercise of five optional 10-year extensions, which are at the sole discretion of Diageo USVI (provided that no monetary event of default shall have occurred and be continuing at the time of any exercise of an extension). By leasing instead of purchasing the Distillery Site, Diageo USVI assumes certain risks of leasing property such as the risk of lease termination or default under the lease. If the lease is terminated, there are no assurances that Diageo USVI will be able to continue to operate the Distillery on the Distillery Site. See “THE DIAGEO PROJECT - Distillery and Washwater Treatment Facility – Lease Agreement.”

Competing Facility

Currently Cruzan is the only rum produced in the Virgin Islands. Cruzan currently produces bulk rum and although Diageo USVI plans to produce bulk rum at its facility in the Virgin Islands, Diageo USVI currently plans to use a significant portion of that bulk rum for the production of all of its Captain Morgan branded products to be sold in the United States beginning in 2012. Should the production plans of either company change so that they compete for market share, no assurance can be given that such action would not adversely affect rum production in the Virgin Islands and exports to the U.S., causing a reduction in the amount of Matching Fund Revenues available to pay debt series on the Senior Bonds and the Series 2009A Bonds.

Environmental Risks

The sites on which the Diageo Project will be built only recently came under Diageo USVI control. While certain environmental reviews have been undertaken, all environmental risks of the sites may not be known at this time. Should significant environmental problems be encountered during the construction of the various buildings that constitute the Diageo Project, remediation of those problems may be costly and may cause delays in the construction and timely completion of the Diageo Project.

Historical and Archeological Resources

Archaeological investigations were conducted by an archaeologist approved by and in consultation with VISHPO at both the Warehouse Site and the Distillery Site. The investigations revealed the presence of historical resources at the Distillery Site. Diageo USVI and its archaeological consultant continue to work with VISHPO to further characterize the historical resources and to ensure that the proposed Distillery will not result in adverse impacts to the resources. Should the resources prove to be significant, recovery and mitigation of impact to those resources may be costly and may cause delays in the construction and timely completion of the Diageo Project.

Diageo Holdings Comfort Letter

While Diageo Holdings has provided the Comfort Letter with respect to the payment obligations of Diageo USVI, neither Diageo Holdings nor any other corporate affiliate of Diageo plc, except for Diageo USVI, is legally obligated to make any payments pursuant to the Diageo Agreement. See “THE DIAGEO GROUP – Diageo Group Comfort Letter.”

Outside Factors Could Affect the Diageo Project

The state of the world and/or the U.S. economy, particularly a recession, increased costs of raw materials for construction, fuel or personnel, terrorist attacks and international hostilities, among other

things, could have an adverse impact on the Diageo Project in ways that may not be anticipated and currently cannot be quantified.

Seismic Risks and Other Natural Disasters

Since September 1989, the Virgin Islands has been affected by two major hurricanes that caused significant damage on all three islands, and three less severe storms. Although historically significant hurricanes had occurred in average intervals of 12 to 15 years, between 1916 and 1989 there had been no major hurricanes. The Virgin Islands, which is in “Seismic Zone 3”, also experiences earthquake tremors from time to time, including one measuring 3.3 on the Richter Scale in March 2007, one measuring 4.0 in June 2007 and one measuring 4.5 in April 2009. There has not been, however, a major earthquake since the early 1900s. A “Seismic Zone 3” region is an area in immediate proximity to a major fault system. Damage from an earthquake in such a zone can include the collapse of buildings and other structures that are not designed to seismic standards.

If a hurricane were to strike or an earthquake to occur causing significant damage to the Cruzan facilities or the Diageo Project, no assurance can be given as to how much time would be required to resume production and export of rum from either or both plants. Significant delays could adversely affect the Authority’s ability to pay debt service on the Series 2009A Bonds.

Government’s Obligation to Make Payments Pursuant to the Diageo Agreement

The Government is obligated to make certain annual payments and provide certain economic development incentives to Diageo USVI, as provided in the Diageo Agreement. All such payments pursuant to the Diageo Agreement will be made by the Diageo Special Escrow Agent in accordance with the terms of the Diageo Special Escrow Agreement. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2009A BONDS – Special Escrow Agreement/Diageo Special Escrow Agreement.” The Government has never failed to provide economic development incentives as agreed upon. If the Government fails to make the required payments or provide the required benefits to Diageo USVI, Diageo USVI can terminate the Diageo Agreement without paying liquidated damages in accordance with the provisions of the Diageo Agreement. See APPENDIX B – “The Diageo Agreement dated June 17, 2008.” In that event, there would be no source of revenues to pay debt service on the Series 2009A Bonds.

Liquidated Damages Under the Diageo Agreement

While the Government is entitled to liquidated damages pursuant to the Diageo Agreement under certain circumstances including in the event of a Material Default (as defined in the Diageo Agreement) by Diageo USVI and the termination of the Diageo Agreement, and the Government has agreed to make any liquidated damages available to pay the debt service on the Series 2009A Bonds in the Diageo Project Implementation Agreement, such payments are not included in the Diageo Trust Estate and are not pledged to holders of the Series 2009A Bonds.

Limitation of Remedies

The Subordinated Indenture does not provide for acceleration of the Bonds, including the Series 2009A Bonds, if an Event of Default occurs and is continuing.

Insurance Coverage

Each of the construction contracts in place in connection with the Diageo Project requires the contractors to maintain liability and other types of insurance generally required for construction projects of the size and scope similar to the Diageo Project. In addition, Diageo USVI expects to insure the Diageo Project during its operation as part of the global insurance program maintained by Diageo plc. See “THE DIAGEO PROJECT – Construction Contracts – Insurance Coverage During Construction” and “– Insurance Coverage During Operation.”

There is no assurance, however, that the insurance coverage required under the construction contracts will be maintained by the contractors or be sufficient to cover Diageo USVI from all loss that can occur during the construction period. There also is no assurance that the insurance coverage Diageo USVI will have in place once the Diageo Project is constructed and operating will be sufficient to cover Diageo USVI’s loss in revenues or the Government’s loss in the receipt of Diageo Matching Fund Revenues that can occur due to a material interruption in production of rum at the Distillery.

Demand for Rum

The distilled spirits industry generally embarked on a period of expansion in the past decade. The rum industry has exhibited robust growth in market share during this period and in particular there has been growth in premium brand products and flavored spirits. In 2008, total distilled spirits consumption in the United States increased 2.1% from 2007 to 185.5 million 9-liter cases. This gain marks the eleventh consecutive year of volume growth for the distilled spirits industry and volume growth is forecasted to continue over the next five years. Rum’s share of the distilled spirits market has increased every year since 1992. Since 1995, rum consumption in volume has never increased at less than a 3.7% annual rate. Rum consumption grew from 22.0 million cases in 2005, to 24.6 million cases in 2008, an increase of 11.4% (or 5.4% per year over 1994). Total distilled spirits consumption grew by less than 2.4% over that time span. No assurance can be given, however, as to the future level of consumption of distilled spirits, or rum consumption, or the future market share to be garnered by Virgin Islands rum. See “THE U.S. SPIRITS INDUSTRY” and “THE RUM INDUSTRY.”

Fluctuating Price, Availability and Subsidy on Molasses

Molasses, the principal ingredient of rum, is a commodity traded in the international commodity markets. The market price of molasses is therefore subject to fluctuation based upon supply and demand. Substantially all of the molasses used for Virgin Islands rum production is purchased on such commodity markets from sources outside the Virgin Islands. While the Government has provided a subsidy to stabilize the price of molasses and has covenanted to take actions necessary to maintain the subsidy in the future, and in the case of Diageo USVI, has contractually obligated itself to make subsidy payments from Diageo Matching Fund Revenues as long as the Diageo Agreement remains in effect, there can be no assurance that such subsidy will be available in the future, that the Virgin Islands Legislature, if required, will appropriate such funds in the future, or that funds will be available for appropriation. The Diageo USVI Molasses Subsidy is not subject to appropriation by the Legislature. There also can be no assurance that molasses will be available for the Virgin Islands rum production in the international commodity markets or, if available, will be at a price that the Government can afford to subsidize. Moreover, no assurances can be given as to the continued viability of Diageo USVI, Cruzan or other Virgin Islands rum producers in the event that the molasses subsidy payments are decreased or discontinued in the future. See “THE RUM INDUSTRY.”

Federal Bankruptcy Code Presently Inapplicable

The Bankruptcy Reform Act of 1978, Title 11, United States Code, as amended (the “Federal Bankruptcy Code”), provides a codified regime for the reorganization, liquidation or debt adjustment of various types of insolvent debtors. Generally, only a “person” or a “municipality” may be debtor in a case under the Federal Bankruptcy Code. The term “person” includes individuals, partnerships and corporations, but does *not* include any “governmental unit.” For purposes of the Federal Bankruptcy Code, a governmental unit which cannot file for protection under the Federal Bankruptcy Code, would be (i) a Territory, such as the Government, or (ii) an instrumentality of a Territory, such as the Authority. The term “municipality” is defined to mean a political subdivision or public agency or instrumentality of a State. Therefore, neither the Government nor the Authority may be a debtor in a case under the Federal Bankruptcy Code. Consequently, no Bondholder would be able to avail itself of Federal Bankruptcy Code provisions protecting rights of creditors since the Government and the Authority are both “governmental units” and neither of them is a “person” or a “municipality” for purposes thereof. Since neither the Authority nor the Government is subject to the Federal Bankruptcy Code, there can be no assurance as to how the pledge of Matching Fund Revenues would be treated by a court of law in the event of an insolvency or other inability to pay debt by the Government or the Authority.

Change in Law

There can be no assurance that the United States Congress will not reduce the rate of the federal excise tax that qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code or that the Congress will not amend or eliminate the federal excise tax. If the Cover Over Rate is reduced below \$10.50 per proof gallon, Diageo USVI is permitted to terminate the Diageo Agreement and is not required to pay liquidated damages. There also can be no assurance as to the amount of local duties, taxes and fees which will be collected by the Treasury and Customs and which would be available for transfer to the Government. See “MATCHING FUND REVENUES.”

From time to time, legislation is proposed that may have an adverse effect on the Matching Fund Revenues or the Diageo Agreement. See “THE DIAGEO AGREEMENT.”

Matching Fund Revenues Payment Procedures

Section 1645 of Title 48 of the United States Code, as amended (P. L. 95-348) (“Section 1645”), which provides for annual prepayments of Matching Fund Revenues to the Government, was enacted in 1978 and establishes procedures which are inconsistent with previously enacted Section 7652 of the Code that provides for quarterly payments of Matching Fund Revenues. The legislative history of Section 1645 contains indications of an intent to amend the Code; however, this was not reflected in the final version of Section 1645, as adopted. DOI and Treasury have consistently followed Section 1645 since 1978. There can be no assurance that these payment procedures will not be changed by statute or otherwise.

LITIGATION

There is no litigation pending or, to the best of the knowledge of the Authority or the Government, threatened (i) seeking to restrain or enjoin the issuance of the Series 2009A Bonds or the collection of the Diageo Matching Fund Revenues pledged under the Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Series 2009A Bonds or the validity or the binding effect of the Series 2009A Bonds, the resolutions of the Authority authorizing and implementing the Series 2009A Bonds or the Indenture, the Series 2009A Loan Agreement or the Series 2009A Loan Note or (iii) in any way contesting the creation, existence, powers or jurisdiction of the Authority or the validity or the

effect of the Diageo Agreement, the Series 2009A Loan Agreement or the Series 2009A Loan Note or the application of the proceeds of the Series 2009A Bonds for the purposes planned.

TAX MATTERS

General

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2009A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Series 2009A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2009A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2009A Bonds is exempt from personal income tax imposed by the Virgin Islands, or by any state, territory, or possession or by any political subdivision thereof or by the District of Columbia.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2009A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2009A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds in order that interest on the Series 2009A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2009A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2009A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2009A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2009A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2009A Bond. Prospective investors, particularly those who may

be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2009A Bonds.

The Series 2009A Bonds are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the pro rata interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Series 2009A Bonds, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Series 2009A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2009A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2009A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2009A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2009A Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2009A Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2009A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2009A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2009A Bond after the acquisition date (excluding certain "qualified stated interest" that is

unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2009A Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2009A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification”, or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding”, which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2009A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2009A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2009A Bonds under Federal or state law and could affect the market price or marketability of the Series 2009A Bonds.

Prospective purchasers of the Series 2009A Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

Audited financial statements of the Government for the Fiscal Year ended September 30, 2006, and the Audited financial statements of the Authority for the fiscal year ended September 30, 2008, are available from the Government or the Authority, as applicable, the Municipal Securities Rulemaking Board (the “MSRB”) and Digital Assurance Certification, L.L.C., the dissemination agent responsible for

maintaining the Authority's compliance with its continuing disclosure undertaking with respect to the Series 2009A Bonds. See "CONTINUING DISCLOSURE; DISCLOSURE DISSEMINATION."

The Series 2009A Bonds are secured solely by the Diageo Trust Estate established under the Subordinated Indenture, including amounts payable to the Authority by the Government under the Series 2009A Loan Note. Such amounts are to be derived solely from Diageo Matching Fund Revenues. The audited financial statements of the Government and the audited financial statements of the Authority do not contain detailed information regarding Matching Fund Revenues, Diageo Matching Fund Revenues or the Series 2009A Bonds. The Series 2009A Bonds do not constitute a general obligation of the Government or the Authority. Consequently, the audited financial statements of the Government and the Authority may be of limited relevance to a prospective purchaser of the Series 2009A Bonds.

LEGAL OPINIONS

Certain legal matters incident to the issuance of the Series 2009A Bonds are subject to the approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. The approving opinion of Bond Counsel, substantially in the form set forth in APPENDIX J hereto, is to be furnished upon delivery of the Series 2009A Bonds. Bond Counsel's approving opinion does not express any opinion with respect to information in this Official Statement. However, Bond Counsel will deliver an opinion at closing addressed solely to the Underwriters for their purposes which opinion will address the accuracy of certain information in this Official Statement. Certain legal matters will be passed upon for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands, for Diageo USVI by its counsel, DLA Piper LLP (US), New York, New York, and Nichols Newman Logan & Grey, P.C., St. Croix, Virgin Islands, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C.

FINANCIAL ADVISOR

The Authority has retained Fiscal Strategies Group of Swarthmore, Pennsylvania, as financial advisor in connection with the issuance of the Series 2009A Bonds. Although Fiscal Strategies Group has assisted in the preparation of this Official Statement, Fiscal Strategies Group is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE; DISCLOSURE DISSEMINATION

Continuing Disclosure

The Authority has covenanted, and the Government has acknowledged and accepted, for the benefit of Bondholders, to provide certain financial information and operating data relating to the Authority and the Government by not later than 180 days following the end of the Authority's Fiscal Year beginning with the Fiscal Year ending September 30, 2008 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Authority with the MSRB. In addition, the Authority has covenanted to provide within forty-five (45) days of the end of each quarter of each Fiscal Year, quarterly summaries of the information provided by the Virgin Islands Bureau of Alcohol Control Board on rum shipments and excise taxes collected as reported by the Bureau of Alcohol, Tobacco and Firearms submitted to DOI with respect to Matching Fund Revenues (the "Quarterly Report"). The specific nature of the information to be contained in the Annual Report, the Quarterly Report and the notices of material events is summarized in APPENDIX I – "Form of Continuing Disclosure Certificate of the Authority." These covenants have been made in order to assist

the Underwriters in complying with the United States Securities and Exchange Commission Rule 15c2-12 (the “Rule”).

During construction of the Diageo Project and until the commencement of rum exportation from the Virgin Islands to the U.S. mainland, Diageo USVI shall provide: (i) quarterly updates on construction progress of the Diageo Project against the plans for completion of construction by November 2010; (ii) confirmation that distillation of the rum at the Distillery has commenced as planned by November 2010; (iii) information with regard to any changes in the date for commencement of exportation of rum from the Virgin Islands to the U.S. mainland; and (iv) confirmation when exportation from the Virgin Islands begins, specifying the number of proof gallons of bulk rum initially exported and whether such quantities are consistent with the production plans set forth in the Diageo Agreement. After the Diageo Project becomes fully operational, Diageo USVI promptly shall provide information with respect to any material interruption of production that could materially impact the supply of rum used to manufacture Captain Morgan branded products to be sold in the U.S. and any material deviation from the production plans set forth in the Diageo Agreement.

In connection with certain prior continuing disclosure undertakings, the Government has failed to provide its audited financial statements on a timely basis. The Authority and the Government have complied with all other requirements of such undertakings in respect of the provision of financial information and operating data required thereby. The Government has established procedures designed to assure full compliance with such undertakings in the future.

Disclosure Dissemination Agent

In order to provide certain continuing disclosure with respect to the Series 2009A Bonds in accordance with the Rule, the Authority has entered into a Disclosure Dissemination Agent Agreement (the “Disclosure Dissemination Agreement”) for the benefit of the Bondholders with Digital Assurance Certification, L.L.C. (“DAC” or “Disclosure Dissemination Agent”), under which the Authority has designated DAC as its disclosure dissemination agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent’s obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the Authority has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Reports, Quarterly Reports, audited financial statements, notice of Notice Event or Voluntary Report (in each case as such terms are defined in the Disclosure Dissemination Agreement), or any other information, disclosures or notices provided to it by the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Government, the Bondholders or any other party. The Disclosure Dissemination Agent has no responsibility for the Authority’s failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the Authority or the Government has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Authority at all times.

RATINGS

Fitch Ratings Inc. and Moody's Investor Service, Inc. have assigned the Series 2009A Bonds an underlying rating of "BBB-" and "Baa3", respectively.

A rating, including any related outlook with respect to potential changes in such rating, reflects only the view of the Rating Agency giving such rating and is not a recommendation to buy, sell or hold the Series 2009A Bonds. An explanation of the procedure and methodology used by each Rating Agency and the significance of the above ratings may be obtained from the Rating Agencies. The above ratings may be changed at any time and there is no assurance that either rating will continue for any given period of time or that either rating will not be revised downward or withdrawn entirely by the Rating Agency furnishing the same, if in the judgment of such Rating Agency, circumstances so warrant. Any such downward revision or withdrawal of either rating is likely to have an adverse effect on the market price of the Series 2009A Bonds.

UNDERWRITING

The Series 2009A Bonds are being purchased by J.P. Morgan Securities Inc., as the representative of the underwriters (the "Underwriters") named in the Bond Purchase Contract entered into by and between the Authority and the Underwriters dated June 26, 2009 (the "Purchase Contract"). The purchase price payable by the Underwriters for the Series 2009A Bonds is \$245,073,350.04 (representing the \$250,000,000 par amount of the Series 2009A Bonds less an original issue discount of \$2,506,456.30 and an underwriting discount of \$2,420,193.66). The Underwriters are obligated to purchase all of the Series 2009A Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering price and other terms respecting the offering and sale of the Series 2009A Bonds may be changed from time to time by the Underwriters after the Series 2009A Bonds are released for sale, and the Series 2009A Bonds may be offered and sold at prices other than the initial offering price, including sales to certain dealers (including dealers who may sell the Series 2009A Bonds into investment accounts, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents.

Citigroup Inc., parent company of Citigroup Global Markets Inc., one of the Underwriters of the Series 2009A Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2009A Bonds.

J.P. Morgan Securities Inc., one of the Underwriters of the Series 2009A Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable to this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009A Bonds with UBS Financial Services Inc.

J.P. Morgan Securities Inc. also will serve as the holder of the Series 2009A Bond Anticipation Notes, expected to be issued by the Authority on June 29, 2009.

MISCELLANEOUS

In this Official Statement, any summaries or descriptions of provisions in the Subordinated Indenture, the Series 2009A Loan Agreement, the Series 2009A Loan Note, the Diageo Special Escrow Agreement or the Special Escrow Agreement and all references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents relating to such matters for further information, copies of which may be obtained from the principal corporate trust office of the Trustee.

Any statement in this Official Statement involving matters of estimates or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the owners or holders of, or of interests in, any of the Series 2009A Bonds.

Financial and statistical information has been provided by the Authority and the Government, certain of its agencies and instrumentalities and other sources deemed reliable by the Authority and the Government. The Underwriters are not responsible for any of such information nor have the Underwriters independently verified such information.

This Official Statement is submitted in connection with the sale of the Series 2009A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. The execution and delivery of this Official Statement has been duly authorized by the Authority.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

By: /s/ JOHN P. DEJONGH, JR.
John P. deJongh, Jr.
Chairman

Dated: June 26, 2009

APPENDIX A

INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS

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UNITED STATES VIRGIN ISLANDS

The information in this Appendix was obtained from the Government of the Virgin Islands and has not been independently verified.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Geography, Landscape and Climate

The United States Virgin Islands—also known as the U.S. Virgin Islands or more commonly as the Virgin Islands—is located some 1,600 miles southeast of New York City, about 1,075 miles from Miami, and 60 miles east of Puerto Rico. Approximately 70 small islands, islets and cays make up the Virgin Islands.

The principal islands are St. Croix, St. Thomas, St. John and Water Island. St. Croix, the largest of the four islands, has an area of 84 square miles and lies entirely in the Caribbean Sea. It is marked by undulating hills that rise gently to the north and lagoons that lie on the south coast. It has two main urban centers—Christiansted to the north and Frederiksted to the west—which both lie on a broad central plain. St. Thomas, which lies approximately 35 miles north of St. Croix, is 32 square miles in area. It is distinguished by a ridge of east-west hills that rise abruptly from the sea. It is marked by numerous sandy beaches along the shoreline, including Magens Bay, which is considered to be one of the finest beaches in the Caribbean. The main urban center, Charlotte Amalie, which also is the capital of the Virgin Islands, is surrounded by a protected deep water harbor. St. John is a 20- square mile area located approximately three miles east of St. Thomas. Its topography is similar to St. Thomas with steep, rugged hills and white-sandy beaches. About two-thirds of the island is preserved as the Virgin Islands National Park. Water Island is located approximately one-half mile from the harbor in Charlotte Amalie. In December 1996, Water Island was transferred to the Virgin Islands from the exclusive jurisdiction of the Department of Interior.

The Virgin Islands has temperatures ranging between 70°F and 90°F with an average of 78°F. Humidity is low and annual rainfall averages 40 inches. However, three hurricanes since 1989—Hugo, Marilyn and Bertha— caused considerable damage to all four islands.

Population

In 2008, the population of the Virgin Islands was estimated at 115,431, an increase of 0.6% from 2007, with 54,394 people on St. Thomas, 56,576 people on St. Croix and 4,461 people on St. John. The following table details the Virgin Islands and the United States population growth from 1950 through 2008.

Table 1
Comparative United States Virgin Islands
and United States Population Growth
1950-2008

| Year | United States Virgin Islands Population | Annual Percentage Increase (Decrease) | United States Population | Annual Percentage Increase (Decrease) |
|------|---|--|-----------------------------|--|
| 1950 | 26,665 | - | 152,271,417 | - |
| 1960 | 32,099 | 2.0% | 180,671,158 | 1.9% |
| 1970 | 62,468 | 9.5 | 205,052,174 | 1.3 |
| 1980 | 96,569 | 5.5 | 227,224,681 | 1.0 |
| 1990 | 101,809 | 0.5 | 249,464,396 | 1.0 |
| 1999 | 107,912 | 1.0 | 279,040,168 | 1.2 |
| 2000 | 108,612 | 0.6 | 282,177,754 | 1.1 |
| 2001 | 109,344 | 0.7 | 285,093,813 | 1.0 |
| 2002 | 110,026 | 0.6 | 287,973,924 | 1.0 |
| 2003 | 110,740 | 0.6 | 290,809,777 | 1.0 |
| 2004 | 111,459 | 0.6 | 293,655,404 | 1.0 |
| 2005 | 111,470 | 0.0 | 295,895,897 | 0.8 |
| 2006 | 113,689 | 2.0 | 298,754,819 | 1.0 |
| 2007 | 114,743 | 0.9 | 301,621,157 | 1.0 |
| 2008 | 115,431 | 0.6 | 304,059,724 | 0.8 |

Sources: U.S. Census Bureau and United States Virgin Islands Bureau of Economic Research.

Per Capita Income

In 2007, per capita income of the Virgin Islands was \$19,787, an increase of approximately 3.0% from 2006. The per capita income in the United States in 2008 was \$39,751, an increase of approximately 2.9% from 2007. The following table sets forth the Virgin Islands per capita income from 1980 through 2007, and the United States per capita income from 1980 through 2008. As of the date of this Official Statement, the Virgin Islands per capita income for 2008 was not available.

Table 2
Comparative Per Capita Income
United States Virgin Islands and United States
1980-2008
(current dollars)

| Year | United States Virgin Islands | Annual Percentage Increase (Decrease) | United States | Annual Percent Increase (Decrease) |
|------|---------------------------------|--|---------------|--|
| 1980 | 6,230 | - | 10,183 | - |
| 1990 | 12,799 | 10.5% | 19,572 | 9.2% |
| 1999 | 16,242 | 2.8 | 27,843 | 3.5 |
| 2000 | 16,567 | 2.0 | 29,469 | 5.8 |
| 2001 | 16,898 | 2.0 | 30,271 | 2.7 |
| 2002 | 17,236 | 2.0 | 31,039 | 2.5 |
| 2003 | 17,581 | 2.0 | 31,632 | 2.4 |
| 2004 | 18,108 | 3.0 | 33,050 | 4.5 |
| 2005 | 18,652 | 3.0 | 34,586 | 4.6 |
| 2006 | 19,211 | 2.1 | 36,714 | 6.2 |
| 2007 | 19,787 | 3.0 | 38,615 | 5.2 |
| 2008 | - | - | 39,751 | 2.9 |

Sources: U.S. Bureau of Economic Analysis and United States Virgin Islands Bureau of Economic Research.

Employment

Civilian employment in the Virgin Islands grew during the last five years. The improvement in the job market was largely a result of an increase in private sector jobs, particularly in construction and financial services. The Virgin Islands' unemployment rate decreased to 5.8% in 2008 from 5.9% in 2007. The unemployment rate rose to 9.4% in 2003, primarily as a result of the completion of construction of the coker plant by HOVENSA (described herein), which had employed approximately 2,000 construction workers. The following table sets forth the Virgin Islands labor and employment statistics and the Virgin Islands and the United States unemployment rates from 2001 through 2008.

Table 3
United States Virgin Islands Labor Force,
Employment and Unemployment Rates and
United States Unemployment Rates
2001-2008

| Year | Labor Force | Employment | Unemployment Rate United States Virgin Islands | Unemployment Rate United States |
|-------------|--------------------|-------------------|---|--|
| 2001 | 49,900 | 46,140 | 7.1% | 4.7% |
| 2002 | 49,457 | 44,980 | 8.7 | 5.8 |
| 2003 | 48,170 | 43,640 | 9.4 | 6.0 |
| 2004 | 50,066 | 46,295 | 7.8 | 5.5 |
| 2005 | 50,906 | 47,301 | 7.1 | 5.1 |
| 2006 | 50,794 | 48,640 | 6.2 | 4.6 |
| 2007 | 52,670 | 49,547 | 5.9 | 4.6 |
| 2008 | 52,710 | 49,677 | 5.8 | 5.8 |

Sources: United States Virgin Islands Department of Labor, Bureau of Labor Studies Reports, and the U.S. Department of Labor, Bureau of Labor Statistics.

About 73% of the jobs in the Virgin Islands are in the private sector. Private sector employment growth is fueled primarily by tourism and related services. The services sector experienced positive growth during 2007, and currently accounts for 29% of private employment. Wholesale and retail trade accounted for 21%, while construction, mining and manufacturing accounted for 17%.

Total public sector employment, which accounts for approximately 27% of jobs in the Virgin Islands, remained virtually flat during the last three years. In 2007, there were 12,698 public sector jobs compared to 12,460 in 2006. Federal and local governments are the largest employers in the public sector, with local government as the source of over 93% of all public sector jobs. The number of local government jobs was 12,015 in 2008, compared to 11,752 local government jobs in 2007. The number of United States federal government jobs was 957 in 2008, an increase of 1.2% from 946 jobs reported in 2007. Table 4 details the Virgin Islands annual wage and salary employment statistics from 2004 to 2008.

Table 4
Annual Wage and Salary Employment
United States Virgin Islands
2004-2008

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Private sector: | | | | | |
| Construction & mining | 1,709 | 2,437 | 3,421 | 3,470 | 3,359 |
| Manufacturing..... | 2,084 | 2,244 | 2,322 | 2,318 | 2,307 |
| Transportation, communication & public utilities | 1,518 | 1,672 | 1,634 | 1,625 | 1,615 |
| Wholesale & retail trade | 6,886 | 6,901 | 6,930 | 7,013 | 7,102 |
| Finance, insurance & real estate | 2,517 | 2,606 | 2,568 | 2,459 | 2,376 |
| Leisure and Hospitality | 7,131 | 7,119 | 7,141 | 7,469 | 7,496 |
| Information | 893 | 890 | 825 | 803 | 792 |
| Services (professional, business, education, health) | 8,890 | 9,034 | 9,274 | 9,400 | 9,522 |
| Total Private Sector | <u>30,166</u> | <u>31,601</u> | <u>32,951</u> | <u>33,362</u> | <u>33,388</u> |
| Government sector: | | | | | |
| U.S. federal government..... | 860 | 873 | 925 | 946 | 959 |
| Territorial government | 11,508 | 11,462 | 11,536 | 11,752 | 12,015 |
| Total Government Sector..... | <u>12,368</u> | <u>12,335</u> | <u>12,461</u> | <u>12,698</u> | <u>12,973</u> |
| Total..... | <u>42,551</u> | <u>43,936</u> | <u>45,411</u> | <u>46,061</u> | <u>46,361</u> |

Source: United States Virgin Islands Department of Labor, Bureau of Labor Statistics. Some figures may not add due to rounding. Nonagricultural wage and salary employment 2003 series have been converted from the 1987 Standard Classification (SIC) system to the North American Industry Classification System (NAICS).

Table 5 lists the ten largest private sector employers in the Virgin Islands as of December 2007. As of the date of this Official Statement, the list of the ten largest private sector employers in 2008 was not available.

Table 5
United States Virgin Islands
Ten Largest Employers
Private Sector
(December 2007)

| <u>Name of Employer</u> | <u>Principal Business</u> |
|---|---------------------------|
| HOVENSA L.L.C | Oil Refinery |
| Turner St. Croix Maintenance | Maintenance |
| Ritz-Carlton Hotel VI Inc | Resort Hotel |
| Triangle Construction and Maintenance Corp. | Construction |
| Innovative Telephone Corporation | Utility |
| CBI Acquisition, LLC | Resort Hotel |
| Westin St. John Hotel, Inc. | Resort Hotel |
| Plaza Extra Supermarket, St. Croix | Grocery Store |
| K-Mart Corporation | Department Store |
| Frenchman's Reef Beach Resort | Resort Hotel |

Source: United States Virgin Islands Department of Labor, Bureau of Labor Statistics.

Tax Incentives Programs

Economic Development Commission

The Government offers various tax incentives that promote industrial and economic development in the Virgin Islands. The most notable incentive program was created by the Legislature in October 1975. The Economic Development Commission (the "Commission" or the "EDC") was created to promote the growth, development and diversification of the economy of the Virgin Islands (the "Economic Development Program"). Qualifying businesses—corporations, partnerships or sole proprietorships—receive various benefits if they meet certain criteria set forth in the legislation. Gross Receipts Taxes are eligible for abatement by the Commission that could result in a reduction of Gross Receipts Taxes payable to the Government.

To qualify for tax incentives, investors must invest at least \$100,000, exclusive of inventory, in an eligible business and employ at least ten persons on a full-time basis. 80% of all employees must be residents of the Virgin Islands. Small, locally-owned businesses may receive EDC benefits for a minimum of five years or up to half the term of the regular program if they invest at least \$20,000 and have at least two full-time employees. A beneficiary receives a substantial reduction in, or an exemption from, all taxes imposed on businesses, including the Gross Receipts Taxes. Most importantly, the economic development legislation permits a 90% income tax reduction, resulting in a maximum tax rate of less than 4% on income for approved operations. Tax benefits also extend to passive income from certain qualifying investments, such as the Virgin Islands government obligations. The 90% reduction extends to dividends received by a beneficiary's Virgin Islands resident shareholders.

As of September 30, 2008, 95 businesses actively conducted operations under the Economic Development Program. Applicants that are granted benefits are permitted to commence receiving benefits at some point during the first five years of operation of their enterprise. To date, 62 companies who previously were approved for benefits have not elected to commence benefits. The EDC has started a retention program to facilitate and support applicants in the activation process.

In 2004, Congress passed The American Jobs Creation Act of 2004 ("Jobs Act"), which placed new restrictions on the use of the tax incentives by requiring companies to buy office supplies and equipment in the Virgin Islands and company owners to become residents of the Virgin Islands and to live in the Virgin Islands at least half of the year in order to enjoy the tax benefits. As a result of the changes brought about by the Jobs Act, the EDC has seen a reduction in the number of applications submitted for EDC benefits. Most of the reduction has been in applicants seeking benefits as Designated Services Companies, which are mainly financial services and consulting companies and which are required to have clients or customers outside of the Virgin Islands. In Fiscal Year 2008, five Designated Services Companies closed operations as a result of the impact of the Jobs Act. To date, a total of 31 beneficiaries have closed operations and 28 beneficiaries petitioned to the Board for consideration of waivers of employment and/or modifications to special conditions in order to maintain operations within the Virgin Islands. The EDC has not seen a material decline in the number of non-Designated Service Company applicants. As a result of the changes caused by the Jobs Act, the EDC has implemented a mitigation program to assist EDC beneficiaries who can document economic harm or loss.

To encourage self-compliance, the Commission provides an orientation to all beneficiaries, as part of which beneficiaries receive information on the performance of the terms of their contract with the Government, compliance with all applicable local and federal laws and regulations and the reporting requirements of the program. The Commission has in place compliance monitoring mechanisms, including an annual compliance conference. The Commission also assists beneficiaries in coordinating with other government agencies responsible for administering provisions of the incentive program to

ensure compliance with the program requirements. In cases of non-compliance, the Commission assesses fines and holds revocation and suspensions hearings which allow the Commission to revoke, suspend or modify benefits as well as collect retroactive taxes owed by beneficiaries who have failed to comply with Commission conditions.

The EDC Program allows some qualifying investors to receive limited extensions or renewals of tax benefits, provided such investors fulfill certain criteria, including the ability to continue to promote economic development in the Virgin Islands. The Commission is currently trying to limit the number of extensions or renewals of benefits in favor of granting benefits to new businesses in growing industries such as financial services industries, tourism, marine and medical technology-based enterprises, which will further stimulate the economy of the Virgin Islands by providing positions for skilled labor and college educated personnel.

Section 934 Tax Incentives

Pursuant to 26 U.S.C. § 934 ("Section 934 Tax Incentives"), the Government, through the EDC, may provide certain reductions in income tax liability incurred to the Virgin Islands. Such tax reductions are permitted for (i) income derived from sources within the Virgin Islands or income effectively connected with the conduct of a trade or business within the Virgin Islands, (ii) income tax liability paid by citizens or residents of the United States, and (iii) income derived by qualified foreign corporations from sources outside the United States and which is not effectively connected with the conduct of a trade or business within the United States.

Section 934 Tax Incentives may have the effect of reducing the amount of income tax paid to the Government. Such tax incentives, however, may increase the conduct of business that results in other economic benefits to the Virgin Islands.

Tax Increment Financing

In June 2008, the Government of the Virgin Islands enacted the Tax Increment Financing ("TIF") legislation as an additional economic development tool. In September 2008, the Economic Development Authority certified the Island Crossing Shopping Center (the "ICSC") on St. Croix as the Virgin Islands' first TIF area and authorized the issuance of up to \$30 million in tax-exempt bonds to finance a portion of the costs of a 43 acre mixed-use sustainable development project to be constructed on the ICSC site and anchored by a Home Depot. The tax-exempt bonds will be secured by the incremental increase in gross receipts and real property tax revenues generated at the ICSC site.

Transportation

The Virgin Islands are accessible by air from around the world. Approximately 80 flights per week during the off-tourist season and 90 flights per week during the peak tourist season travel between the Virgin Islands and the United States mainland on six major airlines.

The Cyril E. King Airport Terminal on St. Thomas was completed and opened in October 1990. The expansion of the runway to 7,000 feet was completed and placed into service in December 1992. Major renovation and expansion of the Henry E. Rohlsen Airport Terminal on St. Croix was completed in January 2002. The renovation doubled the terminal's existing square footage to 181,000 square feet and expanded the runway to 10,000 feet.

Inter-island transportation between St. Thomas and St. Croix is provided by seaplane and regular ferry service. The island of St. John can be reached by regular airplane, seaplane and ferry service. Inter-

island ferry service also provides passenger service between St. Thomas and the nearby British Virgin Islands several times a day. The Virgin Islands' internal transportation needs are served by a large number of taxis, taxivans, open-air buses, the public transit system (VITRAN) and rental cars.

Utilities and Energy

The Virgin Islands Water and Power Authority ("WAPA"), an instrumentality of the Government, owns and operates electric power generation and distribution facilities on St. Thomas and St. Croix and currently is the sole provider of electricity in the Virgin Islands with the exception of a limited number of commercial entities that produce electricity for their own use. WAPA provides electricity to approximately 50,000 customers. WAPA also operates a water production and distribution system and provides water service to approximately 10,000 customers. Gas is available from various companies throughout the Virgin Islands.

Tourism

Tourism is the Virgin Islands' largest industry and represents the largest business segment in the private sector.

Visitor Arrivals

In 2008, the Virgin Islands recorded 2.435 million visitor arrivals, which represents a decrease of 6.7% from 2.611 million visitor arrivals recorded in 2007. After a decrease in tourism in 2001 and 2002, following the terrorist attacks in the United States involving the hijacking of airplanes and crashing them into the World Trade Center in New York City and a remote area of Pennsylvania on September 11, 2001, the performance in the tourism sector during the last five years has been uneven and it worsened by the global economic crisis that commenced in 2008. Total visitor arrivals in 2008 decreased by 6.7% from 2007. Cruise passenger arrivals in St. Thomas and St. John decreased by 8.5% as compared to 2007. The number of cruise ship arrivals on St. Croix decreased from 6 in 2007 to 2 in 2008. The removal of St. Croix from the itineraries of Carnival and Royal Caribbean cruise lines in 2008 accounted for the 66.7% decrease in the number of cruise passengers arriving on St. Croix between those two years. In 2008, air visitors to St. Thomas and St. John increased by 6.2% as compared to 2004.

Starting in 2009, 48 cruise ships are scheduled to arrive on St. Croix, including Azamara Cruiselines, Celebrity Cruiselines and Holland America. The scheduled cruise ship arrivals are expected to bring approximately 121,768 visitors to St. Croix in 2009. Table 7 details visitor arrivals in the Virgin Islands from 2004 to 2008.

Table 7
United States Virgin Islands
Visitor Arrivals
2004-2008
(000's)

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| St. Thomas/St. John: | | | | | |
| Air Visitors | 524.2 | 544.8 | 535.5 | 561.3 | 556.9 |
| Cruise Passengers | 1,960.9 | 1,910.2 | 1,901.3 | 1,917.4 | 1,754.6 |
| Total Visitors | 2,485.1 | 2,455.0 | 2,436.8 | 2,478.7 | 2,311.5 |
| Number of Cruise Ship Visits * | 922 | 814 | 776 | 750 | 685 |
| St. Croix: | | | | | |
| Air Visitors | 130.8 | 144.5 | 135.3 | 132.1 | 121.9 |
| Cruise Passengers | 25.0 | 54.5 | 35.2 | 7.1 | 2.5 |
| Total Visitors | 155.8 | 204.1 | 170.5 | 139.2 | 124.4 |
| Number of Cruise Ship Visits * | 11 | 48 | 25 | 6 | 2 |
| Total U.S. Virgin Islands: | | | | | |
| Air Visitors | 655.0 | 689.4 | 670.7 | 693.4 | 678.9 |
| Cruise Passengers | 1,964.7 | 1,912.5 | 1,903.5 | 1,917.9 | 1,757.0 |
| Total Visitors | 2,619.7 | 2,601.9 | 2,574.2 | 2,611.3 | 2,435.9 |
| Number of Cruise Ship Visits * | 924 | 818 | 782 | 752 | 687 |

* Actual, not thousands. Totals by island include first and second port of entry arrivals. Total arrivals for the Virgin Islands include first territorial port of entry only; passengers visiting more than one U.S. Virgin Island during the same cruise are only counted once in the Virgin Islands total. Consequently, the Virgin Islands total will always be less than or equal to the sum of the two island totals as indicated.

Source: United States Virgin Islands Bureau of Economic Research.

Hotel and Condominium Occupancy

Hotel occupancy decreased to 60.0% in 2008, from 64.6% in 2007. The number of hotel and condominium rooms decreased slightly to 1,075 in 2008, compared to 1,079 in 2007. Table 8 sets forth the statistics for hotel and other tourist accommodations from 2004 to 2008.

Table 8
United States Virgin Islands
Hotel and Other Tourist Accommodations
2004-2008

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| St. Thomas/St. John: | | | | | |
| Total rooms/units | 3,787 | 3,612 | 3,650 | 3,580 | 3,669 |
| Number of hotels | 31 | 30 | 30 | 29 | 30 |
| Hotel rooms | 3,034 | 2,830 | 2,862 | 2,775 | 2,872 |
| Condominium/other units | 753 | 782 | 788 | 805 | 797 |
| Occupancy rate (percent) | 65.2 | 66.1 | 63.0 | 68.0 | 68.0 |
| St. Croix: | | | | | |
| Total rooms/units | 1,172 | 1,149 | 1,162 | 1,177 | 1,187 |
| Number of hotels | 17 | 17 | 17 | 17 | 17 |
| Hotel rooms | 872 | 856 | 877 | 903 | 910 |
| Condominium/other units | 299 | 293 | 285 | 275 | 278 |
| Occupancy rate (percent) | 49.2 | 56.7 | 51.2 | 54.3 | 46.3 |
| Total U.S. Virgin Islands: | | | | | |
| Total rooms/units | 4,959 | 4,761 | 4,812 | 4,757 | 4,857 |
| Number of hotels | 48 | 47 | 47 | 46 | 47 |
| Hotel rooms | 3,906 | 3,687 | 3,739 | 3,678 | 3,782 |
| Condominium/other units | 1,053 | 1,075 | 1,073 | 1,079 | 1,075 |
| Occupancy rate (percent) | 61.3 | 63.8 | 60.1 | 64.6 | 60.0 |

Source: United States Virgin Islands Bureau of Economic Research.

Visitor Expenditures

Total expenditures by all visitors (tourists, cruise passengers and other excursionists) to the Virgin Islands totaled \$1,433.0 billion in 2007, a decrease of 2.2% from 2006. Table 9 details visitor expenditures in the Virgin Islands from 2004 to 2007. As of the date of this Official Statement, the visitor expenditures data for 2008 was not available.

Table 9
United States Virgin Islands
Visitor Expenditures
2004-2007
(in millions)

| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Tourists | \$789.8 | \$863.8 | \$881.0 | \$829.4 |
| Excursionists: | | | | |
| Day-trip by air | 27.6 | 28.0 | 26.7 | 49.2 |
| Cruise passengers | 538.6 | 599.2 | 558.0 | 554.3 |
| Total | <u>566.2</u> | <u>629.2</u> | <u>584.7</u> | <u>603.5</u> |
| Total Expenditures | <u>\$1,356.0</u> | <u>\$1,493.0</u> | <u>\$1,465.7</u> | <u>\$1,433.0</u> |

Source: United States Virgin Islands Bureau of Economic Research.

The Virgin Islands benefits from a \$1,600 duty-free exemption for articles purchased in the Virgin Islands and either mailed or taken back to the United States mainland once each 30 days without regard to the length of stay abroad, while other countries in the Caribbean basin only have a \$800 duty-free exemption (a two-to-one advantage). In addition, each adult is permitted to take up to 1.2 gallons of duty-free liquor as compared to one quart from other areas. In response to falling U.S. tariff rates and increased competition from Caribbean neighbors, local customs duties and excise taxes were removed from selected tourist-oriented merchandise in 1982. As a result, prices of various luxury items, such as jewelry, china, cameras, leather goods, perfumes, watches and clocks, can be significantly below average United States mainland prices.

Construction and Real Estate

From 2007 to 2008, the total value of approved building construction permits for all of the Virgin Islands, an indicator of current and future industry activity, increased by 2.7%, primarily due to an increase in the value of private residential construction permits.

The construction sector averaged 3,426 jobs in Fiscal Year 2008, compared to 3,591 jobs during Fiscal Year 2007. Construction jobs declined 4.6% in Fiscal Year 2008 and by 8.0% in the first quarter of Fiscal Year 2009. Construction activity is expected to increase as a result of private construction activities in hotel development, road construction, seaport expansion, public and private-sector housing development and retail and commercial office space. For example, the new rum distillery and storage facility for Captain Morgan's rum to be constructed on St. Croix by Diageo USVI Inc. is expected to open in the third quarter of Fiscal Year 2010.

From 2007 to 2008, private residential construction increased by 23.0% on St. Thomas and St. John and by 7.3% on St. Croix, and private non-residential construction decreased by 45.6% on St. Thomas and St. John and by 54.2% on St. Croix. The following two tables detail the value of construction permits and the residential real estate market sales in the Virgin Islands from 2004 to 2008.

Table 10
United States Virgin Islands
Value of Construction Permits
2004-2008

| Year | Total USVI (millions) | Percent Increase (Decrease) | St. Thomas/ St. John (millions) | Percent Increase (Decrease) | St. Croix (millions) | Percent Increase (Decrease) |
|-------------|------------------------------|------------------------------------|--|------------------------------------|-----------------------------|------------------------------------|
| 2004 | 339.4 | 32.8 | 210.2 | 20.3 | 129.2 | 59.7 |
| 2005 | 390.2 | 15.0 | 274.3 | 30.4 | 115.9 | (10.2) |
| 2006 | 442.7 | 13.5 | 217.7 | (20.6) | 225.0 | 94.2 |
| 2007 | 266.0 | (39.9) | 172.6 | (20.6) | 93.1 | (141.5) |
| 2008 | 273.3 | 2.7 | 183.8 | 6.3 | 89.5 | (3.9) |

Source: United States Virgin Islands Bureau of Economic Research.

Table 11
United States Virgin Islands
Residential Real Estate Market Sales Analysis
2004-2008

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| St. Thomas/ St. John: | | | | | |
| Number of Homes Sold | 304 | 244 | 192 | 174 | 148 |
| Average Home Sales Price (\$) | 509,879 | 649,655 | 684,742 | 782,938 | 560,006 |
| No. of Condominium Sales..... | 318 | 277 | 240 | 184 | 158 |
| Average Condominium Sales Price (\$) | 184,498 | 234,233 | 260,142 | 294,969 | 311,654 |
| St. Croix: | | | | | |
| Number of Homes Sold | 283 | 267 | 288 | 280 | 187 |
| Average. Home Sales Price (\$) | 302,278 | 302,874 | 367,938 | 364,266 | 385,665 |
| No. of Condominium Sales..... | 233 | 261 | 239 | 114 | 108 |
| Average Condominium Sales Price (\$) | 120,440 | 151,361 | 166,081 | 246,346 | 218,382 |
| Total U.S. Virgin Islands: | | | | | |
| Number of Homes Sold | 587 | 511 | 480 | 454 | 335 |
| Average Home Sales (\$)... .. | 409,792 | 468,460 | 494,660 | 525,048 | 462,687 |
| No. of Condominium Sales..... | 551 | 538 | 479 | 298 | 266 |
| Average Condominium Sales Price (\$) | 157,410 | 194,029 | 213,210 | 279,368 | 273,784 |

Source: United States Virgin Islands Bureau of Economic Research.

The table below presents the 15 largest real property taxpayers in the United States Virgin Islands in 2005.

Table 12
15 Largest Real Property Taxpayers of the
United States Virgin Islands
2005

| <u>Name</u> | <u>Assessment**</u> | <u>Taxes</u> |
|-------------------------------|------------------------|---------------------|
| HOVENSA | \$1,872,595,713 | \$14,044,467* |
| Lockhart (Family) | 82,151,814 | 499,129* |
| Topa Equities | 61,061,603 | 472,058* |
| Hartman (Family) | 41,159,948 | 280,937* |
| Palace Resorts | 31,918,105 | 239,385* |
| Sunny Isles Shopping Center | 18,783,548 | 148,126* |
| Cabrita Grand Estates | 16,647,774 | 124,858* |
| Banco Popular de Puerto Rico | 16,083,370 | 120,625* |
| Innovative Telephone | 14,805,822 | 110,571* |
| Boschulte (Family) | 16,328,874 | 95,333* |
| B&W Realty Investment, Ltd. | 11,655,551 | 93,066* |
| St. Thomas Liquor Co. | 12,092,584 | 92,744* |
| Isidore Paiewonsky | 8,932,526 | 68,293* |
| VI Inns, Ltd./Circa 1675, LLP | 7,582,354 | 60,167* |
| Ginn-LA Fund VI, LLC | 10,066,536 | 46,887* |
| Total | \$2,221,866,122 | \$16,496,654 |

* Decrease in Real Property Taxes due to the granting of Farmland, Homestead, Veterans, Elderly, and Nonprofit Exemptions, or an increase in Sewer User's Fee.

** Assessments are 100%.

Source: United States Virgin Islands Office of the Tax Assessor.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

General

Under the terms of the Revised Organic Act, the Virgin Islands is an unincorporated territory of the United States with separate executive, legislative and judicial branches of government. The legislative power of the Virgin Islands is vested in the Legislature, a unicameral, popularly elected body consisting of 15 members who serve two-year terms. The Legislature has jurisdiction over “all rightful subjects of legislation” not inconsistent with the laws of the United States made applicable to the Virgin Islands.

Executive power resides with a Governor and a Lieutenant Governor who are elected every four years. The Governor is responsible for execution of local laws, administration of all activities of the executive branch and appointment of department heads and other employees. The current Governor is the Honorable John P. deJongh, Jr., and the current Lieutenant Governor is the Honorable Gregory R. Francis, both of whom assumed office on January 1, 2007.

Judicial power is vested in the Supreme Court and the Superior Court of the Virgin Islands, each established by local law with jurisdiction over all local matters, and the District Court of the Virgin Islands, which has the jurisdiction of a District Court of the United States. The Supreme Court of the Virgin Islands has appellate jurisdiction over the Superior Court. The United States Court of Appeals for the Third Circuit has appellate jurisdiction over the District Court and its appellate division. The Supreme Court justices are appointed by the Governor and confirmed by the Legislature and serve for terms of ten years. The Superior Court judges are appointed by the Governor and confirmed by the Legislature and serve for terms of six years. The judges of the District Court of the Virgin Islands are appointed by the President of the United States with the advice and consent of the United States Senate and serve for ten years.

As an unincorporated territory of the United States, the Virgin Islands is subject to the plenary power of Congress to make rules and regulations with respect to the Virgin Islands. In addition, Congress has the power to legislate directly for a territory or to establish the government for such territory subject to congressional control.

Pursuant to the Insular Areas Act of 1982, the Office of Inspector General ("OIG") of the Department of Interior performs the functions of government comptroller through audits of revenues and receipts and expenditure of funds and property of the Virgin Islands, as well as the other insular areas of Guam, American Samoa, and the Commonwealth of Northern Mariana Islands. In this role, the OIG has issued numerous audit reports in the past regarding the finances of the Virgin Islands.

Residents of the Virgin Islands have been citizens of the United States since 1917. However, apart from express Congressional grants of rights, such as the Bill of Rights in Section 1561 of the Revised Organic Act, residency in the Virgin Islands does not carry with it the full range of rights which accompany citizenship in any of the states. Residents of the Virgin Islands do not have the right to vote in national elections for the President and Vice President of the United States. The Virgin Islands has an elected, non-voting delegate to the United States House of Representatives. Pursuant to a rule of the United States House of Representatives, the delegate may vote in legislative committees and participate in floor debate but may not vote on the House floor.

Outstanding Indebtedness of the Government

General Obligation Debt

The Revised Organic Act restricts the principal amount of general obligation debt which the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the Virgin Islands. As of June 1, 2009, the Government had approximately \$574.5 million of general obligation debt outstanding. Such amount is within the statutory debt limitation established under the Revised Organic Act.

Outstanding Bonds and Similar Obligations

Outlined in Table 13 are the general obligation bonds or notes of the Government issued either by the Government or by the Authority on behalf of the Government, and the revenue obligations of the Government, outstanding as of June 1, 2009.

In addition to the obligations noted in Table 13, in April 2004 and in April 2007, the Authority, on behalf of the Government, issued Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery) (the "HOVENSA Bonds") on behalf of HOVENSA for construction of a coker. The HOVENSA Bonds are solely secured by, and payable from, revenues of HOVENSA.

The Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Notes) 1998 Series A and E (the "1998 Bonds"), the Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note), Series 2002 (the "2002 Bonds") and the Revenue Bonds, Series 2004A (Virgin Islands Matching Fund Loan Note) (the "2004A Bonds") are each a special limited obligation of the Authority secured by revenues of the Authority received pursuant to various notes from the Government. The 1998 Bonds, the 2002 Bonds and the 2004A Bonds are special limited obligations of the Government and do not have recourse to the Gross Receipts Taxes or to any other revenues not pledged to debt service for such revenue bonds issued by the Authority. No recourse may be had for the payment of the 1998 Bonds, the 2002 Bonds, the 2004A Bonds or the HOVENSA Bonds against the general funds of the Authority, the Government's general funds or the Gross Receipts Taxes that secure the Series 1999A Bonds, the Series 2003A Bonds, the Series 2006 Bonds, the 2006 Subordinate Lien Revenue Notes, the 2008A Subordinate Lien Revenue Notes or any future Bonds issued under the Gross Receipts Taxes Indenture.

Table 13
Summary of Outstanding General Obligation Bonds or Notes
As of June 1, 2009

| Issuer | Issue Description | Outstanding Amount | Security |
|---|---|---------------------------|---|
| United States Virgin Islands | General Obligation Bonds, 1999 Series A (the "General Obligation Bonds") | \$1,180,000 * | General obligation of the Government |
| Virgin Islands Public Finance Authority | Revenue Bonds, Series 1999A (Virgin Islands Gross Receipts Taxes Loan Note) (the "Series 1999A Bonds") | \$93,925,000 | Gross Receipts Taxes Loan Note payable by the Government and general obligation of the Government |
| Virgin Islands Public Finance Authority | Revenue Bonds, Series 2003A (Virgin Islands Gross Receipts Taxes Loan Note) (the "Series 2003A Bonds") | 255,815,000 | Gross Receipts Taxes Loan Note payable by the Government and general obligation of the Government |
| Virgin Islands Public Finance Authority | Revenue Bonds, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) (the "Series 2006 Bonds") | 217,495,000 | Gross Receipts Taxes Loan Note payable by the Government and general obligation of the Government |
| Virgin Islands Public Finance Authority | Subordinate Lien Revenue Notes, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) (the "2006 Subordinate Lien Revenue Notes") | 473,968 | Gross Receipts Taxes Loan Note payable by the Government and general obligation of the Government |
| Virgin Islands Public Finance Authority | Subordinate Lien Revenue Notes, Series 2008A (Virgin Islands Gross Receipts Taxes Loan Note) (the "2008A Subordinate Lien Revenue Notes") | 5,625,160 | Gross Receipts Taxes Loan Note payable by the Government and general obligation of the Government |

Summary of Outstanding Revenue Obligations
As of June 1, 2009

| Issuer | Issue Description | Outstanding Amount | Security |
|---|---|---------------------------|--|
| Virgin Islands Public Finance Authority | Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Notes) 1998 Series A and E | \$395,505,000 | Matching Fund Loan Notes payable by the Government |
| Virgin Islands Public Finance Authority | Revenue Bonds (Federal Highway Reimbursement Anticipation Loan Note), Series 2002 | 3,475,000 | Federal Highway Administration, monies derived from the United States federal government |
| Virgin Islands Public Finance Authority | Revenue Bonds, Series 2004A (Virgin Islands Matching Fund Loan Note) | 82,310,000 | Matching Fund Loan Notes payable by the Government |

* Source: United States Virgin Islands Department of Finance. The remaining figures in this table were provided by the Trustee.

APPENDIX B

**DIAGEO AGREEMENT DATED AS OF JUNE 17, 2008, AS SUPPLEMENTED BY THE
LETTER DATED JUNE 25, 2009**

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AGREEMENT

Between

DIAGEO USVI INC.

and

THE GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Dated as of June 17, 2008

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AGREEMENT

THIS AGREEMENT (this "Agreement"), dated as of the 17th day of June, 2008, is made by and between Diageo USVI Inc. ("Diageo") and the Government of the United States Virgin Islands (the "Government"). The Government and Diageo are collectively referred to as the "Parties" and individually as a "Party".

RECITALS

A. Government Recitals

- WHEREAS the Government is committed to promoting the growth, development and diversification of the economy of the United States Virgin Islands ("Virgin Islands"); to benefiting the people of the Virgin Islands by developing to the fullest possible extent the human and economic resources available therein; to promoting capital investment for the economic development of the Virgin Islands; to establishing and preserving opportunities for skilled jobs for residents of the Virgin Islands; and to enhancing the business climate in the Virgin Islands, all of which purposes and objectives are declared to be in the public interest; and
- WHEREAS the Government is interested in promoting a greater measure of economic self-sufficiency and autonomy by alleviating (1) annual governmental deficits which have exceeded US \$50 million, (2) a total accumulated unfunded pension fund deficit estimated to exceed US \$1.2 billion and (3) a debt ratio per capita more than twice that of any US state; and
- WHEREAS the Government is interested in promoting economic growth and stability by generating revenue sufficient to support bond financing for capital investment throughout the Virgin Islands; and
- WHEREAS the Government supports initiatives which would improve the Virgin Islands' credit ratings in global capital markets; and
- WHEREAS the Government is committed to increasing employment opportunities and improving economic conditions on St. Croix; and
- WHEREAS to these ends, the Government has committed to employ innovative economic incentives, similar to those being deployed successfully by mainland states, to attract new manufacturing investment; and
- WHEREAS the Government is interested in attracting new state-of-the-art manufacturing facilities which create skilled jobs and support the development of other diversified Virgin Islands industries in addition to real estate, tourism, and financial services; and

- WHEREAS the Government, mindful of the Virgin Islands' distinct ecological conditions, is interested in attracting state-of-the-art environmentally sound manufacturing facilities; and
- WHEREAS, since 1954, the United States Congress ("Congress") has encouraged the Virgin Islands to direct its deployment of financial incentives toward the attraction of additional rum production, which is historically indigenous to the Virgin Islands, and Congress has made available the rum cover-over program to support the Government's efforts to attract new rum production; and
- WHEREAS Congress' purpose in providing rum cover-over eligibility to the Virgin Islands is to promote economic self-sufficiency and fiscal autonomy for the Virgin Islands Government and economic stability for the Virgin Islands; and
- WHEREAS, as Congress has recognized repeatedly, without availability of the rum cover-over revenues as a financing mechanism, the Virgin Islands would lack the resources necessary to attain Government self-sufficiency and economic growth and stability; and
- WHEREAS, in 1954, when Congress first made the Virgin Islands eligible to participate in the rum cover-over program, Congress' expressed intent was to provide the Virgin Islands competitive and economic parity with Puerto Rico, which had enjoyed access to the rum cover-over program since 1917, and to relieve the federal government of the burden to provide periodic federal deficit-financing appropriations for the Virgin Islands; and
- WHEREAS, since Congress extended the rum cover-over program to the Virgin Islands in 1954, the Virgin Islands has not achieved economic or competitive parity with Puerto Rico through the production of rum and has not succeeded in eliminating annual governmental deficits as Congress intended, because the Virgin Islands has heretofore been unable to attract sufficient rum production; and
- WHEREAS, since 1954, the Virgin Islands has attracted two producers of rum, Brugal and the Cruzan VIRIL Ltd., with Brugal leaving the Virgin Islands in the 1970's; and
- WHEREAS, apart from rum production, the Virgin Islands has attracted only one major manufacturing facility (HOVENSA) since the 1960's that is still in operation; and
- WHEREAS, in pursuing its commitment to attract new rum production, the Government competes with foreign venues which offer substantial financial incentives; thus the Government has designed a modern set of incentives to compete in its efforts to attract rum production within the Virgin Islands; and

- WHEREAS the Government currently provides significant statutory incentives for the attraction and support of rum production facilities, including the following:
 - A Molasses Subsidy Fund to assist distillers engaged in the processing of molasses into rum within the Virgin Islands (33 V.I.C. § 3036);
 - Statutorily provided marketing support payments designed to support the long-term growth of branded rum products to build a stable long-term rum industry;
 - Statutory exemptions on property, excise, gross receipts and income taxes and other local tax incentives; and
 - Environmental mitigation support; and
- WHEREAS to become more broadly competitive as a rum production venue, the Virgin Islands has committed best efforts to utilize these incentive programs to expand production by one or more rum industry leaders in the global premium brand sector; and
- WHEREAS the Government is entering into a long-term public-private relationship with Diageo to advance the Government's aforementioned purposes; and
- WHEREAS the operation of the new rum distillery will generate substantial new revenues, including new cover-over revenues, that will enable the Government to support economic self-sufficiency and fiscal autonomy as well as capital investment and economic stability throughout the Virgin Islands; and
- WHEREAS the development of a new rum distillery will diversify the Virgin Islands rum industry that has become reliant on one producer, and provide the Government with the financial flexibility to provide needed support to assist that producer in addressing long-standing environmental issues that have impeded its long-term growth; and
- WHEREAS the development of a new rum distillery through the implementation of this Agreement will enhance the self-sufficiency and fiscal autonomy of the Government and provide a mechanism for funding the substantial unfunded pension fund liability, and thereby reduce the risk of such unfunded liability becoming a burden of the federal government, consistent with Congress' intent in providing the rum cover-over in 1954; and
- WHEREAS the public-private relationship between the Government and Diageo established by this Agreement is a classic project finance enterprise inasmuch as the revenues that will finance the bonds for construction of the new rum production facility, and the revenues used to finance economic incentives provided by the Government, will derive from new cover-over revenues produced by the operation of the new rum distillery; and
- WHEREAS the Government is entering into this Agreement with Diageo in reasonable reliance upon Congress' longstanding commitment to assist the Virgin Islands in

attracting new rum production through the availability of the rum cover-over program, and the resulting public-private relationship is fully consistent with the letter and purpose of the rum cover-over provisions; and

- WHEREAS Congress, in 1983 and 2000, enacted laws which vested the Virgin Islands legislature with sole authority to determine how rum cover-over revenues should be utilized; and
- WHEREAS, upon the execution of this Agreement, the Government will submit this Agreement to the Virgin Island legislature for ratification pursuant to enabling legislation; and
- WHEREAS it is the policy and determination of the Government that certain benefits and incentives as provided herein, in exchange for obligations and benefits received, should be made available to Diageo to assist in its development of its new bulk rum production facilities on St. Croix, and the provision of these benefits are declared to meet the compelling public needs outlined above; and

B. Diageo Recitals

- WHEREAS Diageo and its Affiliates (the “Diageo Group”) is the world’s leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, wine and beer categories including Smirnoff, Johnnie Walker, Guinness, Baileys, J&B, José Cuervo, Tanqueray, Crown Royal, Beaulieu Vineyard and Sterling Vineyards wines, Bushmills Irish whiskey and Captain Morgan rum; and
- WHEREAS Captain Morgan is a global leader among rum brands and the second leading rum consumed in the United States and production of Captain Morgan is expected to grow steadily in coming years; and
- WHEREAS Diageo Group has determined to build, own and operate its own facility for the production of bulk rum to be used in its Captain Morgan branded products; and
- WHEREAS Diageo Group evaluated alternative sourcing strategies for the long-term production of Captain Morgan rum brands across the Caribbean; and
- WHEREAS Diageo Group is attracted by the economic incentives offered by the Government to locate on St. Croix – in lieu of other competing locations – all of its United States production of Captain Morgan rum upon implementation of Phase Two of the Project (as described below); and
- WHEREAS Diageo intends, directly or through one or more Affiliates, to construct, own and operate its facility for the production of bulk rum to be used for Captain Morgan branded products at one or more locations on St. Croix; and
- WHEREAS location on St. Croix and construction of the Project will require new facility construction and relocation expenditures in the order of US \$150 million; and

- WHEREAS the Project will include a state-of-the art environmentally sound manufacturing plant; and
- WHEREAS Diageo Group, having done its due diligence, has determined the investment in and development of the Project on St. Croix and the receipt of the benefits and incentives as set forth herein are beneficial to its growth and desire to enhance its position in the global rum market; and

C. Joint Recitals

- WHEREAS the Parties recognize that the Project will have a significant positive impact on the welfare of the community, including the creation of jobs on St. Croix, increase of rum cover over revenues to the Virgin Islands treasury, creation of additional economic opportunities and revenues for other Virgin Islands industries that will support and otherwise do business with the Project, increased confidence in the Virgin Islands economy and other benefits, and therefore the Government is desirous of having Diageo locate the Project on St. Croix; and
- WHEREAS upon full implementation of Phase Two, the building of the Project is projected to contribute an estimated \$78 million to the Virgin Islands economy; and
- WHEREAS the current estimate is that once Phase Two is fully operational, the Project will generate approximately 40 to 70 direct jobs and total direct and indirect employment of approximately 230 jobs and yield a recurring annual additional contribution of approximately \$53 million to the Virgin Islands economy and will generate significant additional Cover Over Revenues for the Government; and
- WHEREAS the Parties recognize that Diageo Group can locate the Project in other jurisdictions or source its bulk rum requirements from existing facilities but agree that both Parties and the residents of the Virgin Islands will be benefited by Diageo Group's decision to construct and operate the Project on St. Croix.

NOW, THEREFORE, in consideration of the foregoing recitals, the covenants, representations, warranties, commitments and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I

GENERAL PROVISIONS

1.1 Agreement Scope

This Agreement shall become effective and legally bind the Parties upon the full execution hereof and the adoption by the Legislature of the Virgin Islands of the Act ratifying this Agreement and the obligations of the Government contained herein (such date, the

“Effective Date”). This Agreement sets forth the terms and conditions under which the Government intends to obtain and be responsible for, among other things, the potential grant financing related to the Project and Diageo intends to locate and be responsible for the construction and operation of the Project in the Virgin Islands and the covenants, representations and warranties in connection therewith. The Agreement includes this document and any exhibits, attachments, schedules or appendices attached hereto or referenced herein all of which are hereby incorporated by reference.

1.2 Government Obligations

In consideration of Diageo locating the Project and operations related to the Project on St. Croix, the Government agrees to fully perform its obligations as set forth in this Agreement. In addition, in order to provide, if necessary, the grant financing contemplated by this Agreement and perform the other obligations required of it hereunder, the Government shall enter into such additional agreements and/or use best efforts to adopt appropriate legislative or regulatory enactments, as the case may be, as may be necessary to fulfill such obligations. The Government shall not adopt any legislation, executive order, regulation, agreement, obligation, legal instrument, or other undertaking which materially impairs or limits the Government’s ability to fully perform its obligations as set forth in this Agreement.

1.3 No Additional Cost to Diageo

The Government shall fully fund and perform its obligations under this Agreement, and at no time shall Diageo be responsible for or be required to incur or pay any cost, charge or expense under this Agreement relating to those obligations (or any agreement executed pursuant hereto) unless this Agreement (or the agreement executed pursuant hereto) specifically identifies a cost, charge or expense to be borne or paid by Diageo.

1.4 Inducement

The Parties acknowledge that (a) the financing, tax, production and marketing incentives granted by the Government hereunder constitute the main inducement for Diageo to undertake the Project, (b) absent such financing, tax, production and marketing incentives, Diageo would not locate the Project in the Virgin Islands, and (c) Diageo’s development and operation plans with respect to the Project rely on the continued availability of such incentives throughout the Term of this Agreement. The Parties also acknowledge that Diageo’s commitment to produce bulk rum for Captain Morgan branded products in accordance with the terms of this Agreement constitutes one of the main inducements for the Government to provide the financing, tax, production and marketing incentives set forth in this Agreement.

1.5 Diageo Obligations

In consideration of the Government granting the benefits and incentives to Diageo under this Agreement, which consideration shall be acknowledged by Diageo upon the full execution, adoption and ratification of this Agreement by the Government, Diageo agrees to fully perform its obligations as set forth in this Agreement. In addition, in order to perform such obligations under this Agreement, Diageo shall enter into such additional agreements as necessary. Diageo

shall not enter, and shall not cause or suffer its Affiliates to enter, into any other contract, agreement, arrangement, undertaking or transaction that materially impairs or limits its ability to fully perform its obligations as set forth in this Agreement.

ARTICLE II DEFINITIONS

2.1 Defined Terms

For purposes of this Agreement, the following terms shall have the meanings set forth below:

“Affiliate” shall mean with respect to Diageo any entity which is controlled by or directly or indirectly owned in whole or in part by Diageo plc.

“Aggregate Rum Sales” shall mean, with respect to any Fiscal Year, the aggregate number of proof gallons of all taxable rum sold in the United States during such Fiscal Year attributable to the Project, as reported in the Monthly Cover Over Reports for such Fiscal Year.

“Agreement” shall have the meaning specified in the preamble.

“Annual Diageo Surplus Receipts” shall have the meaning specified in Section 6.1.6(b) hereof.

“Annual Gross Cover Over Receipts” shall have the meaning specified in Section 6.1.6(a) hereof.

“Baseline Rum Sales” shall mean zero (the number of proof gallons of taxable rum that would have been sold by Diageo from facilities located in the Virgin Islands in the absence of this Agreement).

“Cover Over Rate” shall have the meaning specified in Section 6.2.1 hereof.

“Cover Over Revenues” shall mean the federal excise tax revenues payable to the Government by the U.S. Government pursuant to Section 7652(b) of the U.S. Internal Revenue Code or any other regulation which may be substituted for such Section in the future. For purposes of this Agreement, Cover Over Revenues are deemed to be “payable to the Government” in respect of a Fiscal Year when all Monthly Cover Over Reports in respect of such Fiscal Year have been submitted by TTB to the U.S. Department of the Interior and a copy of each has been received by OMB/VI, and shall be determined without regard to the actual timing of such payment by the U.S. Government. The Cover Over Revenues attributable to any relevant rum sales (including Aggregate Rum Sales and Incremental Rum Sales) during any Fiscal Year are determined by multiplying the number of proof gallons of relevant rum sales by a Dollar amount calculated in accordance with Section 7652(b) of the U.S. Internal Revenue Code for such Fiscal Year.

“Diageo Group” shall have the meaning specified in the Recitals hereof.

“Diageo Project Bonds” shall have the meaning specified in Section 6.1.1 hereof.

“Diageo Project Indenture” shall have the meaning specified in Section 6.1.6(a) hereof.

“Diageo Project Pledged Revenue Account” shall have the meaning specified in Section 6.1.6(a) hereof.

“Diageo Surplus Receipts Account” shall have the meaning specified in Section 6.1.6(b) hereof.

“Dispute” shall have the meaning specified in Section 10.3.1 hereof.

“Economic Development Incentives” shall mean those incentives provided by the Government to Diageo in accordance with Section 4.1 hereof.

“Economic Development Obligations” shall mean those obligations imposed on Diageo pursuant to Section 4.2 hereof.

“Effective Date” shall mean the date upon which both of the following have been accomplished: (a) this Agreement has been signed by authorized representatives of each Party hereto and (b) upon the adoption by the Legislature of the United States Virgin Islands of the Act ratifying this Agreement and the obligations of the Government hereunder.

“Estimated Cover Over Revenue Payment” shall mean, with respect to any Fiscal Year, the projected Cover Over Revenues actually paid to the Government by the U.S. Government at the beginning of such Fiscal Year, which payment is referred to as the “base advance” and is subject to subsequent true-up adjustment.

“Estimated Marketing Support Payments” shall mean, with respect to any Fiscal Year, the portion of the Estimated Cover Over Revenue Payment attributable to projected Incremental Rum Sales during such Fiscal Year multiplied by thirty-five percent (35%).

“Estimated Molasses Subsidy Payment” shall mean, with respect to any Fiscal Year, the estimated amount of the Molasses Subsidy Payment to be paid to Diageo on the basis of the Estimate Summary prepared by Diageo for such Fiscal Year.

“Estimated Production Incentive Payment” shall mean, with respect to any Fiscal Year, the portion of the Estimated Cover Over Revenue Payment attributable to projected Incremental Rum Sales during such Fiscal Year multiplied by eight (8%) percent or nine and one half (9.5%), as the case may be, as referenced in Section 5.3.1 hereof.

“Estimate Summary” shall have the meaning specified in Section 5.5.1 hereof.

“Environmental Laws” shall mean any statute, ordinance, rule, regulation, code, policy, interpretation, Permit, license, authorization, order, judgment, injunction, decree or case law principle or doctrine relating to pollution, Hazardous Substances, land use, or protection of human health or the environment.

“Event of Force Majeure” shall mean any act that (a) materially and adversely affects the affected Party's ability to perform the relevant obligations under this Agreement or delays such affected Party's ability to do so, (b) is beyond the reasonable control of the affected Party, (c) is not due to the affected Party's fault or negligence and (d) could not be avoided, by the Party who suffers it, by the exercise of commercially reasonable efforts, including the expenditure of any reasonable sum of money and, subject to the satisfaction of the conditions set forth in (a) through (d) above, an “Event of Force Majeure” shall include: (i) natural phenomena, such as storms, floods, lightning and earthquakes; (ii) wars, civil disturbances, revolts, insurrections, terrorism, sabotage and threats of sabotage or terrorism; (iii) transportation disasters, whether by ocean, rail, land or air, (iv) strikes or other labor disputes that are not due to the breach of any labor agreement by the affected Party; (v) fires; and (vi) actions or omissions of a Governmental Authority (including the actions of the Government in its capacity as a Governmental Authority or in the exercise of its Governmental Functions) that were not voluntarily induced or promoted by the affected Party, or brought about by the breach of its obligations under this Project Agreement or any Governmental Rule; provided, however, that under no circumstances shall an Event of Force Majeure include any of the following events: (A) economic hardship; (B) changes in market condition, (C) any strike or labor dispute involving the employees of Diageo or any Affiliate of Diageo, other than industry or nationwide strikes or labor disputes; (D) weather conditions which could reasonably be anticipated by experienced contractors operating in the relevant location; (E) the occurrence of any manpower, material or equipment shortages; (F) the reduction of the Cover-Over Rate below its Historic Base Level; or (G) any delay, default, or failure (financial or otherwise) of the affected Party that is not the result of an event that would otherwise be an Event of Force Majeure; provided further, that upon the occurrence of any Event of Force Majeure, the affected Party shall promptly notify the unaffected Party and shall use commercially reasonable efforts to mitigate the effects thereof.

“Fiscal Year” shall mean the Government’s fiscal year of October 1 through September 30.

“Governmental Authority” shall mean any Federal, state or local governmental entity, authority or agency, court, tribunal, regulatory commission or other body, whether legislative, judicial or executive (or a combination or permutation thereof) and any arbitrator to whom a dispute has been presented under Governmental Rule, pursuant to the terms of this Project Agreement or by agreement of the Parties.

“Governmental Function” means any regulatory, legislative, permitting, zoning, enforcement (including police power), licensing or other functions which the Government is authorized or required to perform in its capacity as a Governmental Authority in accordance with Governmental Rules.

“Governmental Rule” shall mean any statute, law, treaty, rule, code, ordinance, regulation, permit, interpretation, certificate or order of any Governmental Authority, or any judgment, decision, decree, injunction, writ, order or like action of any court, arbitrator or other Governmental Authority.

“Hazardous Substances” shall mean any and all pollutants, contaminants, toxic, harmful or hazardous materials, substances or waste, or any other substances that: (a) might pose a hazard

to health, safety or the environment; (b) the treatment, decontamination, containment or removal of which may be required; or (c) the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or migration of which is now or hereafter regulated, restricted, prohibited or penalized by any Environmental Law. Hazardous Substances include, without limitation, any substance, material or waste defined, listed or regulated by or in any statute, rule, regulation, Permit or order comprising Environmental Laws, and any other substance, material or waste that is regulated as hazardous, toxic, dangerous, harmful, a pollutant, a contaminant or words of similar meaning, or that because of the nature or characteristics of such substance, material or waste it requires special handling or care to prevent or mitigate a potential threat to human health or the environment.

“Historic Base Level” shall have the meaning specified in Section 6.2.1 hereof.

“Income Tax” shall mean any form of tax including, without limitation, any alternative minimum tax or any levy, impost, duty, surcharge, contribution in the nature of tax imposed, collected or assessed by, or payable to a Tax Authority on any income, as defined in the United States Internal Revenue Code as it applies to the Virgin Islands and all penalties and interest included in or related to any Income Tax.

“Incremental Cover Over Revenues” shall mean, with respect to any Fiscal Year, the Cover Over Revenues attributable to the Incremental Rum Sales for such Fiscal Year.

“Incremental Rum Sales” shall mean, with respect to any Fiscal Year, the number of proof gallons attributable to the Project, calculated by subtracting Baseline Rum Sales from Aggregate Rum Sales.

“Issuer” shall have the meaning specified in Section 6.1.1 hereof.

“Marketing Activities” shall have the meaning specified in Section 5.1.1 hereof.

“Marketing Support Payment” shall have the meaning specified in Section 5.1.2 hereof.

“Matching Fund Bond Indenture” shall mean that certain Indenture of Trust relating to Revenue and Refunding Bonds (Virgin Islands Matching Funds Loan Notes) between the Virgin Islands Public Finance Authority and the Trustee, dated as of May 1, 1998, as supplemented by the First Supplemental Indenture of Trust, dated as of May 1, 1998 and the Second Supplemental Indenture of Trust, dated as of December 1, 2004, each by and between the Virgin Islands Public Finance Authority and the Trustee, as supplemented and amended from time to time.

“Material Default” shall have the meaning specified in Section 6.2.3 hereof.

“Molasses Subsidy Payments” shall have the meaning specified in Section 5.2.1 hereof.

“Monthly Cover Over Reports” shall mean the report of actual monthly collections of federal excise tax revenues pursuant to Section 7652 of the U.S. Internal Revenue Code, which report is prepared immediately following the end of such month by TTB and submitted to the

U.S. Department of the Interior, and a copy of which is delivered to the OMB/VI approximately forty-five (45) days after the end of such month.

“OMB/VI” shall mean the Government’s Office of Management and Budget.

“Party” or “Parties” shall have the meaning specified in the introduction to this Agreement.

“Permits” means all consents, registrations, filings, licenses, permits, certificates, decrees, approvals, authorizations, qualifications, entitlements and orders of governmental authorities.

“Phase One” shall mean the period of time beginning on the Effective Date and ending upon the commencement of Phase Two of the Project.

“Phase Two” shall mean the date upon which Diageo commences the production of all bulk rum at the Project for the sale of Captain Morgan branded products in the United States, except as otherwise provided in this Agreement.

“Project” shall mean the design, construction, ownership and operation of a fully operational, state-of-the-art facility, including any subsequent improvements, for the production and potential storage of rum together with all related utilities and transportation improvements and facilities necessary and appurtenant thereto to be located on a site or sites to be selected by Diageo on St. Croix, the basic components of which are specified on Exhibit A hereto; which, at the sole option of Diageo, may be developed in a single phase or two separate phases each of them comprising the facilities and related equipment to allow Diageo to distil up to approximately 11 million proof gallons per year at the end of the first phase and up to approximately 20 million proof gallons per year at the end of the second phase.

“Project Construction” shall mean, to the extent applicable, the development, design, engineering, construction, equipping and commissioning of the Project, including the receipt of all necessary Permits for the foregoing activities, so that full operations may begin at the Project.

“Project Coordinator” shall mean the qualified and experienced individual designated from time to time by the Governor who shall represent the Government in coordinating with Diageo regarding the needs and requirements of the Project as set forth in this Agreement and as may from time to time arise in an administrative, communications and facilitation and obligation fulfillment context.

“Production Incentive Payment” shall have the meaning specified in Section 5.3.1 hereof.

“Project Site” shall mean the site or sites to be selected by Diageo for construction of the Project.

“Tax or Taxes” shall mean any form of tax including alternative minimum tax or any levy, impost, duty, surcharge, contribution or withholding in the nature of tax (including without limitation; income tax, capital tax, gross receipts tax, excise tax, customs duties, franchise tax, sales and use tax, value added tax, land or stock transfer tax, mortgage registration tax and real

estate tax), imposed, collected or assessed by, or payable to a Tax Authority and all penalties and interest included in or related to any Tax.

“Tax Authority” shall mean any governmental, state or municipality body competent to impose or collect or assess any tax in the Virgin Islands.

“Term” shall have the meaning set forth in Section 10.15 of this Agreement.

“True-Up Amount” shall mean, with respect to any Fiscal Year, the amount calculated by subtracting the Estimated Marketing Support Payment, Estimated Molasses Subsidy Payment or Estimated Production Incentive Payment, as the case may be, from the applicable Marketing Support Payments, Molasses Subsidy Payments or Production Incentive Payments actually received or to be received for the Fiscal Year in question.

“Trustee” shall mean The Bank of New York Trust Company, N.A., as successor to United States Trust Company of New York, as Trustee under the Matching Fund Bond Indenture, or any successor thereto as provided in the Matching Fund Bond Indenture.

“TTB” shall mean the U.S. Alcohol and Tobacco Tax and Trade Bureau.

“Virgin Islands” shall mean the United States Virgin Islands.

“Virgin Islands Code” shall mean the laws of the Virgin Islands as from time to time amended.

“Virgin Islands Tax Code” shall mean the mirror United States Internal Revenue Code as applicable to the Virgin Islands and as from time to time amended.

ARTICLE III **FACILITATION OF THE PROJECT**

3.1 Development of the Project

3.1.1 Following the occurrence of the Effective Date and the closing of the financing specified in Section 6.1 hereof, Diageo shall or shall cause one or more of its Affiliates to

(a) acquire, through lease or purchase, an appropriate Project Site on St. Croix upon which the Project shall be developed; provided, that if title to the Project Site is acquired by or transferred to an Affiliate of Diageo, such Affiliate shall accede to the terms of this Agreement in a manner reasonably acceptable to the Government, pursuant to which such accession such Affiliate shall become a Party to this Agreement and become jointly and severally liable for the obligations of Diageo hereunder;

(b) cause the Project to be designed, developed, constructed, equipped and operated in accordance with all applicable laws and regulations, including applicable Environmental Laws, as soon as reasonably practicable; and

(c) comply with all employment laws of the United States and the Virgin Islands during construction and operation of the Project.

3.1.2 It is understood and agreed that Diageo's obligations to (x) acquire, through lease or purchase, the Project Site and (y) cause the Project to be designed, developed, constructed, equipped and (z) commence operations of the Project in a timely manner, are conditioned upon the following (any one or more of which conditions may be waived by Diageo, at Diageo's sole option, without affecting any other condition or obligation of either party hereunder), it being understood that Diageo shall use all commercially reasonable efforts to cause such conditions to be satisfied as soon as reasonably practicable:

(a) Diageo's ability to secure a Project Site on St. Croix on a commercially reasonable basis that is appropriate to develop the Project; or

(b) Diageo's ability to timely obtain such permits as may be necessary to construct, equip and operate the Project; or

(c) Diageo's ability to receive, without restriction, any tax credit or marketing support or incentive payments granted by the Government pursuant to this Agreement; or

(d) Diageo's ability to obtain the Project financing described in Article VI of this Agreement.

3.1.3 It is further understood and agreed that at Diageo's sole option the Project may be developed, constructed and operated in a single phase or in two separate phases. If Diageo determines it will develop the Project in two phases, Diageo shall begin development of Phase One of the Project as soon as possible after the occurrence of the Effective Date and the closing of the financing described in Article VI of this Agreement. Development of Phase Two of the Project will occur when it is determined by Diageo to be economically advantageous to do so.

3.1.4 For the avoidance of doubt, the Parties acknowledge and agree that unless otherwise decided by Diageo, Diageo will sell no bulk rum to the United States before January 2012.

3.2 **Designation of a Project Coordinator**

The Parties agree that it is in the Parties' best interests for the design, development, construction, equipping and operational start up of the Project to proceed on an expeditious timetable. Accordingly, in order for the Project to commence as soon as possible and to proceed in an efficient and orderly manner and to be completed on schedule, the Government shall, on the Effective Date, designate a Project Coordinator who shall devote such time as may be reasonably required to carry out his or her duties during Project Construction and thereafter during operation of the Project. In particular, such duties may relate to labor, transportation, permitting or other Project-related issues.

3.3 Assistance with Permits

For the Term of this Agreement, the Government shall do all things and take such actions reasonably necessary, to the fullest extent permitted by law, to assist Diageo (and, where applicable, its contractors and subcontractors), through the Project Coordinator, in Diageo's expeditious filing of all applications for and obtaining, maintaining and renewing all Permits. The Government shall take all feasible and lawful measures necessary to have all Permits issued as soon as is practicable, provided that Diageo has complied with its obligations set forth in Section 3.1.1(b).

ARTICLE IV ECONOMIC DEVELOPMENT TAX INCENTIVES AND OBLIGATIONS

4.1 Economic Development Tax Incentives

In addition to any other tax or development incentives that Diageo may be currently or in the future eligible to receive, the following tax and other Economic Development Incentives set forth in this Section 4.1 shall be granted to Diageo and remain in full force and effect throughout the Term of this Agreement or any extension thereto.

4.1.1 Corporate Income Tax Reduction.

(a) For operating income derived from the Project and for investment income earned with respect to the Project for each taxable year during the Term of this Agreement or any extension thereof, Diageo shall be entitled to: (a) reduce the amount of each payment of its estimated Income Taxes by ninety percent (90%); and (b) reduce its Income Tax liability shown on its Income Tax return by ninety percent (90%). In the case of estimated Income Taxes, such reduction shall be prorated over the quarterly payments due.

(b) The reduction of Income Tax liability on a current basis or the reduction of Income Taxes otherwise payable by Diageo shall be applicable with respect to all of the computations, assessments, and collection of such Income Taxes, as provided by the Virgin Islands Tax Code including the payment of the estimated Income Taxes.

(c) The payment of all dividends (including payments falling within sections 881 and 1442 of the Virgin Islands Tax Code as well as dividend equivalent amounts as imposed by Section 884 of the Virgin Islands Tax Code), and interest by Diageo shall be entitled to, in the case of interest, a 100% exemption from income and withholding tax, and in the case of dividends a 90% exemption from income and withholding tax on the distribution of operating or investment income and a 100% exemption from income and withholding tax on any distribution which Diageo can identify as being made out of funds received from the Government under Article V of this Agreement.

(d) In determining Diageo's Income Tax liability for any tax year or part thereof during the Term of this Agreement or any extension thereto, the

reduction in Income Tax liability and liability to withholding taxes, customs duties, gross receipts taxes, excise taxes and all other Taxes and benefits shall not be treated as taxable income to Diageo.

(e) In determining Diageo's Income Tax liability, payments made by the Government to Diageo under Article V shall not be treated as taxable income to Diageo.

4.1.2 Other Tax Exemptions.

Diageo shall be completely exempted from the payment of the following taxes:

(a) All Taxes on real property or any interest in real property (including all improvements located thereon) to the extent that such property is utilized in connection with the Project (which exemption shall inure to the benefit of the ultimate owner of the Project Site as well as to Diageo), including but not limited to other similar Taxes, assessments, charges, fees, levies, surcharges and contributions made assessed by or paid to any Tax Authority.

(b) Gross receipts taxes.

(c) All excise and similar taxes levied on or in connection with materials and equipment utilized in the Project including but not limited to raw materials, building materials, furnishings, supplies, tools, pipes, pumps, conveyor belts, appliances, or other equipment, materials, supplies, goods, merchandise, and/or commodities for use in the construction, alteration, expansion, maintenance, reconstruction, and/or operation of the Project.

4.1.3 Customs Duty. Notwithstanding anything to the contrary in the laws of the Virgin Islands, raw materials and component parts imported into the Virgin Islands by Diageo for the purpose of producing, creating or assembling an article, good or commodity as a result of industrial or manufacturing processing, such raw materials or component parts shall be subject upon importation into the Virgin Islands to customs duties (where applicable) at a rate of no more than one percent (1%) or less where such lesser rate is provided by the Virgin Islands Code.

4.1.4 No Adverse Actions.

(a) The Government hereby acknowledges that Diageo will from the Effective Date be entitled to receive the Tax reductions, exemptions and other benefits granted to Diageo by the Government and set out in this Agreement without the need for any formal application procedure by Diageo and that receipt of the above tax benefits shall be dependent upon the material compliance by Diageo with the requirements set forth in Section 4.2 hereof. Outside the terms of this Section 4.2, there shall be no additional conditions or requirements imposed upon Diageo that could result in the suspension, revocation or reduction of such benefits.

(b) The Government hereby agrees and covenants with Diageo that, except as otherwise provided in this Agreement and to the extent permitted by law, the Government shall not take or fail to take any action, nor permit any action within its control to be taken or fail to be taken, which would or could cause Diageo to lose any applicable Tax reductions, exemptions or benefits granted to Diageo pursuant to this Agreement or any extension thereto.

4.2 Economic Development Obligations

4.2.1 Maintenance of Audit Records.

(a) During the term of this Agreement, Diageo shall maintain accurate books, records and accounts of the Economic Development Incentives and the Economic Development Obligations granted and/or imposed by this Article in order to assist the Government in the administration of such incentives and obligations and the Government and Diageo shall cooperate to create a record keeping program reasonably acceptable to both Parties.

(b) When so requested, Diageo will provide the Government with any information reasonably related to Diageo's Economic Development Incentives and Economic Development Obligations and supporting documentation. The Government shall have the right, upon reasonable request during the term of this Agreement, to cause an audit of the books, records, and accounts maintained by Diageo pursuant to Section 4.2.1(a), to be performed by the V.I. Economic Development Commission, or other agency designated by the Government upon prior written notice to Diageo. The Government shall be responsible for the costs of such audits and the out-of-pocket expenses of Diageo directly incurred in connection with such audit; provided, however, if the results of such audit demonstrate that Diageo has materially failed to comply with the terms of this Section 4.2, Diageo shall be responsible for the costs of such audit.

4.2.2 Economic Development Requirements.

(a) Through its commitment to produce bulk rum in the Virgin Islands, Diageo shall cause to be invested in the Project not less than US \$150 million, excluding inventory, over the course of Phase One and Phase Two of the Project, it being understood that the amounts financed pursuant to the provisions of Article VI of this Agreement shall qualify as such investment.

(b) Upon commencement of commercial production of bulk rum at the Project, Diageo shall employ a minimum of 40 employees. During the term of this Agreement (i) at least eighty percent (80%) of Diageo's employees shall be "Residents of the Virgin Islands" as defined in Title 29, Chapter 12, Section 703(e), Virgin Islands Code, and (ii) not less than twenty percent (20%) of Diageo's employees who are in management, supervisory and/or technical positions shall be Residents of the Virgin Islands.

4.2.3 Diageo shall comply with any and all reasonable requests for information of the V.I. Office of the Governor, Economic Development Commission, Department of Finance, Office of Management and Budget, Department of Labor, Bureau of Internal Revenue, and Bureau of Audit and Control.

4.2.4 Diageo shall comply in a reasonable and substantial manner with all applicable provisions of the Virgin Islands Code and all applicable federal and territorial laws and rules and regulations, including without limitation, those governing non-discrimination, veterans' employment rights, and ecological and environmental standards; provided, however, that in the event of a conflict between the specific terms of this Agreement and the Virgin Islands Code or applicable territorial laws and rules and regulations, the specific terms of this Agreement shall control.

4.2.5 In the event that an audit result indicates that Diageo is not in substantial compliance with its obligation to produce rum for sale in the United States as set forth in Section 6.2 hereof and such non-compliance is not due to an Event of Force Majeure, the Government may seek to resolve such failure in accordance with the terms of Section 10.3 hereof, possibly resulting in the reduction or elimination of the Economic Development Incentives granted to Diageo until such time as Diageo shall resume compliance with its obligations under Section 6.2.

4.3 Effective Date

The effective date of the Tax exemptions, reductions and benefits described in this Article IV shall be the Effective Date of this Agreement.

ARTICLE V

MARKETING AND MOLASSES SUBSIDY AND INCENTIVE PAYMENTS

5.1 Marketing Activities and Support Payments

5.1.1 Marketing Activities.

(a) Diageo shall perform or shall cause one of its Affiliates to perform marketing activities such as specified in Exhibit B (the "Marketing Activities").

(b) Diageo's Marketing Activities shall be in furtherance of its promotion of the Captain Morgan rum brand (or any other products utilizing the bulk rum produced by the Project for sale in the United States), and when advisable from a marketing viewpoint "Virgin Islands Rums" or "Caribbean Rums", in the United States.

(c) Diageo shall regularly report to the Government on the content and effectiveness of the Marketing Activities performed hereunder. The Government shall have the right, at reasonable times and upon reasonable prior notice, to meet with the representatives of Diageo to discuss the Marketing Activities and its progress in promoting both the Captain Morgan brand and Virgin Islands Rums or Caribbean Rums generally.

(d) Diageo's estimated range of projections of Aggregate Rum Sales (in numbers of proof gallons) under this Agreement (assuming that the Marketing Support Payments are made), for each Fiscal Year covered by the initial Term of this Agreement, are set forth in Exhibit C to this Agreement.

5.1.2 Marketing Support Payments. The Government, to support and promote Diageo's performance of the Marketing Activities, agrees to make marketing support payments (the "Marketing Support Payments") to Diageo as follows:

(a) For each Fiscal Year covered by this Agreement, beginning with the Fiscal Year ending September 30, 2012, the Marketing Support Payment shall equal thirty-five percent (35%) of the Incremental Cover Over Revenues in respect of such Fiscal Year.

5.1.3 The Government's payment to Diageo of Marketing Support Payments due hereunder shall be subject only to the deposit of Annual Gross Cover Over Receipts into the Diageo Project Pledged Revenue Account provided in Section 6.1.6 hereof.

5.2 Molasses Subsidy Payments

5.2.1 The Government, to support and promote the development and operation of the Project and Diageo's production of bulk rum at the Project, agrees to make molasses subsidy payments (the "Molasses Subsidy Payments") to Diageo as follows:

(a) For each Fiscal Year covered by this Agreement, beginning with the Fiscal Year ending September 30, 2012, the Molasses Subsidy Payment shall equal the amount to be paid to Diageo as an industry purchaser of molasses pursuant to the provisions of 33 Virgin Islands Code §3036 (2007), which amount shall never be less than the difference between (a) 16 cents (U.S.) per gallon of molasses purchased by Diageo for use in the production of bulk rum at the Project and (2) the total cost per gallon of such molasses to Diageo.

5.3 Production Incentive Payments

5.3.1 The Government, to support and promote the continued production of bulk rum by Diageo at the Project, agrees to make production incentive payments (the "Production Incentive Payments") to Diageo as follows:

(a) For each Fiscal Year covered by this Agreement, beginning with the Fiscal Year ending September 30, 2012, Production Incentive Payments in the amount of eight percent (8%) of the Incremental Cover Over Revenues in respect of such Fiscal Year.

(b) For each Fiscal Year in which the Incremental Cover Over Revenues exceeds \$200 million, the Production Incentive Payment amount shall be increased to nine and one half percent (9.5%) of the Incremental Cover Over Revenues in respect of such Fiscal Year.

5.4 Restrictions and Other Adjustments to Marketing Support, Molasses Subsidy and Production Incentive Payments

5.4.1 The amount of Marketing Support Payments, Molasses Subsidy Payments and Production Incentive Payments for any Fiscal Year (collectively, for purposes of this Section 5.4, the "Annual Payment") to be paid to Diageo shall be payable from and shall not, in the aggregate, exceed the Annual Diageo Surplus Receipts amount transferred to the Diageo Surplus Receipts Account. Notwithstanding the foregoing, in no event shall the Annual Payment due to Diageo in any Fiscal Year be reduced due to a lack of funds available in the Diageo Surplus Receipts Account because of payments made in respect of principal and interest payable on any outstanding bonds or notes secured by, or to be issued or secured by, the Matching Fund Bond Indenture or any similar instrument, it being understood that, if necessary, such debt service amounts shall be debited first from amounts set forth in Section 6.1.6(b)(ii). If, however, any Annual Payment due to Diageo is reduced due to such principal and interest payments, Diageo shall be reimbursed for such reductions in future years when sufficient funds are deposited into the Diageo Surplus Receipts Account.

5.4.2 If the amount of the Annual Payment payable to Diageo for any Fiscal Year exceeds the Annual Diageo Surplus Receipts, such excess amounts shall be known as the "Excess Amount" and shall be accumulated as a credit for future application. For the avoidance of doubt, such credit shall not require the withholding of any funds by the Government, but shall accrue in accounting ledger form for future application as described below.

5.4.3 The Annual Payment shall consist of the sum of the following components: first the Molasses Subsidy Payment, then the Production Incentive Payment and finally the Marketing Incentive Payment. If the Annual Payment is reduced because it would exceed the available Annual Diageo Surplus Receipts in any Fiscal year, first the allocation of the Marketing Incentive Payment as a portion of the Annual Payment shall be reduced and then, if necessary, the Production Incentive Payment shall be reduced accordingly.

5.4.4 If in any Fiscal Year the calculation of the Annual Payment results in an aggregate amount less than the available Annual Diageo Surplus Receipts for such year, any Excess Amount carried over from previous Fiscal Years shall be added to such Annual Amount for payment to Diageo; provided that the Annual Payment to be paid to Diageo in such Fiscal Year shall not exceed the available Annual Diageo Surplus Receipts. Any Excess Amount so allocated shall then be deducted from the running total of Excess Amounts that may have accumulated to that time.

5.4.5 The Government agrees to levy no Virgin Islands Taxes or other charges on the Marketing Support Payments, Molasses Subsidy Payments and Production Incentive Payments paid to Diageo in any Fiscal Year.

5.4.6 Notwithstanding Sections 5.1, 5.2 and 5.3 hereof, the total amount of the Annual Payment due to be paid to Diageo in any Fiscal Year shall not exceed the Annual

Gross Cover Over Receipts less the amounts as set forth in Sections 6.1.6(b)(i), 6.1.6(b)(ii) and 6.1.6(b)(iii) below.

5.5 Payment Procedure and Timing

5.5.1 Annually, on a date to be agreed by the Government and Diageo, Diageo shall deliver to the Government its Estimated Incremental Rum Sales for the current and next succeeding Fiscal Year. At such time, Diageo shall also deliver to the Government a summary of the Estimated Marketing Support Payment, Estimated Molasses Subsidy Payment and Estimated Production Incentive Payment projected to be payable to Diageo in such Fiscal Year based on the projected Incremental Rums Sales noted above. Such notice to the Government shall be known as the "Estimate Summary".

5.5.2 After receipt of Diageo's Estimate Summary, the Government shall deliver its Estimated Cover Over Revenue Payment request to the U.S. Government.

5.5.3 Upon receipt of any Estimated Cover Over Revenue Payment for any Fiscal Year, the Government shall cause the Estimated Marketing Support Payment, Estimated Molasses Subsidy Payment and the Estimated Production Incentive Payment due to Diageo to be deposited in a segregated account to be established for such purpose and to be distributed to Diageo within five (5) days.

5.5.4

(a) Following the OMB/VI's receipt of the cover over report in September of each Fiscal Year, the Government and Diageo shall calculate (I) Aggregate Rum Sales, (II) Incremental Rum Sales, (III) Incremental Cover Over Revenues, (IV) Marketing Support Payments, (V) Molasses Subsidy Payments, (VI) Production Incentive Payments, and (VI) True-Up Amount, in respect of such Fiscal Year.

(b) Payment of the True-Up Amount for a Fiscal Year shall be made to Diageo or the Government, as the case may be, as an adjustment to the Estimated Marketing Support Payments, as calculated by the Government and Diageo, during each subsequent Fiscal Year, either pro-rated among all four quarterly payments or applied solely to the first quarterly payment, at the Government's sole discretion, OR as a cash payment to Diageo or the Government, as the case may be, to be made no later than November 30 of the subsequent Fiscal Year.

ARTICLE VI

PROJECT FINANCING

6.1 Financing Structure

6.1.1 The parties hereto acknowledge and agree that all amounts due and payable under this Agreement shall be subject and subordinate to the lien created under the Matching Fund Bond Indenture. In consideration of the undertaking by Diageo to

develop, own and operate the Project and Project Site as and to the extent provided in this Agreement, the Government agrees, unless otherwise advised by Diageo, following the Effective Date and such other conditions to be agreed between the Government and Diageo, to facilitate the 100% grant financing of the Project through the issuance of tax-exempt bonds (the “Diageo Project Bonds”) to be issued by the Virgin Islands Public Finance Authority (the “Issuer”), the proceeds of which shall be used exclusively for the payment of the Project and Project Site development, construction and soft costs and Diageo working capital funding in connection with the development and construction of the Project (whether such costs are incurred prior to or after the issuance of the Diageo Project Bonds) and shall be requisitioned by Diageo in substantially similar form as currently required under the Matching Fund Bond Indenture. The Diageo Project Bonds will be repaid from the Incremental Cover Over Revenues attributable to the operation of the Project except as may otherwise be provided in the Diageo Project Indenture.

6.1.2 The proceeds of the Diageo Project Bonds shall be held by the Trustee in a segregated construction trust account, to be invested and disbursed as required and directed by Diageo in connection with the development, construction, soft cost and working capital funding needs of Diageo in relation to the Project and Project Site. Any Diageo Project Bonds proceeds not used for such purposes shall be used for the redemption or defeasance of the Diageo Project Bonds following completion of construction and commencement of commercial operation of the Project.

6.1.3 It is currently anticipated that the Issuer will issue the following series of Diageo Project Bonds, payable from a lien on all Incremental Cover Over Revenues:

(a) Approximately US \$250 million Tax-Exempt Diageo Project Bonds, to be used for Project and Project Site acquisition, development, construction and soft costs, working capital funding, capitalized interest, reserves and costs of issuance;

(b) Additional Diageo Project Bonds to be issued as necessary for Project completion or expansion purposes as determined by the Parties;

it being understood that (i) if Diageo decides to develop the Project in two phases, the amount of the Diageo Project Bonds shall be reduced and an additional series of Diageo Project Bonds shall be issued when needed to fund the construction and other related costs necessary to construct the second phase of the Project and (ii) the actual issuance amounts shall be determined on the basis of the needs of the Project and other financing considerations.

6.1.4 The Government agrees to supplement the Matching Fund Bond Indenture to modify the additional bonds test controlling the issuance of future Matching Fund Bonds in a manner that will limit the commitment of future Incremental Cover Over Revenues so as to not encumber such Incremental Cover Over Revenues which might, at any time, be required to be paid to Diageo pursuant to Article V or Section 6.1.6(b) of this Agreement.

6.1.5 The Diageo Project Bonds shall have a term not to exceed thirty (30) years. Except as otherwise provided herein, the Diageo Project Bonds shall not be secured by any source other than the Incremental Cover Over Revenues except as otherwise provided in the Diageo Project Indenture.

6.1.6 In addition to the other documentation required to facilitate the issuance of the Diageo Project Bonds (all such documentation to be agreed in form and substance by the Government and Diageo), the Parties shall also agree on the form and substance of the documentation evidencing the following:

(a) Pursuant to the Diageo Project Indenture (or Diageo Project Indenture supplement) to be executed in connection with the issuance of the Diageo Project Bonds (the "Diageo Project Indenture"), all Incremental Cover Over Revenues generated by the sale of bulk rum from the Project in the United States (the "Annual Gross Cover Over Receipts") shall be deposited into a Pledged Revenue Account (the "Diageo Project Pledged Revenue Account") to be created pursuant to the Diageo Project Indenture.

(b) Pursuant to the Diageo Project Indenture, the trustee thereunder shall deposit the following amounts into the following accounts to be created under the Diageo Project Indenture from amounts on deposit in the Diageo Project Pledged Revenue Account:

(i) first, to a Debt Service Account and related Debt Service Reserve Account, if necessary, such amounts as shall be required under the Diageo Project Indenture to pay or reserve for the principal, interest and other financing costs payable in respect of the Diageo Project Bonds;

(ii) then, subject to Section 5.4.1 hereof, to a Government Account (x) during Phase One of the Project, (1) in any Fiscal Year in which the Incremental Rum Sales is equal to or less than 11,000,000 proof gallons, an amount equal to fifty seven percent (57%) of the Annual Gross Cover Over Receipts, or (2) in any Fiscal Year in which Incremental Rum Sales is greater than 11,000,000 proof gallons, an amount equal to fifty one percent (51%) of the Annual Gross Cover Over Receipts; and (y) during Phase Two of the Project, an amount equal to fifty one percent (51%) of the Annual Gross Cover Over Receipts; and (z) notwithstanding (x) and (y) above, in any Fiscal Year in which the Annual Gross Cover Over Receipts in such Fiscal Year exceed \$200 million, an amount equal to forty nine and one half percent (49.5%) of the Annual Gross Cover Over Receipts;

(iii) then, to an account to be controlled by a Government-sponsored "Communities Facilities Trust" an amount equal to three percent (3%) of the Annual Gross Cover Over Receipts;

(iv) then, to an account to be known as the “**Diageo Surplus Receipts Account**”, an amount equal to the Annual Gross Cover Over Receipts less the amounts due to be deposited into other accounts pursuant to Sections 6.1.6(i), (ii) and (iii) above, which amount shall be known as the “**Annual Diageo Surplus Receipts**” and shall be used to make the payments to Diageo, required pursuant to Sections 5.1, 5.2, 5.3, 5.4 and 5.5 hereof;

(v) then any amounts remaining in the Diageo Project Pledged Revenue Account shall be deposited to a Government account as directed by the Government.

(c) For the first Fiscal Year of bulk rum sales from the Project into the US market or in any Fiscal Year in which an Event of Force Majeure has interrupted the sales of bulk rum produced at the Project into the US market, for the purpose of determining whether the percentage in Section 6.1.6(b)(ii)(x) or Section 6.1.6(b)(ii)(y) shall apply to such Fiscal Year, the Incremental Rum Sales for each month during which the Project was in operation during such Fiscal Year shall be averaged and such average shall be multiplied by twelve (12) and the result shall be known as the “**Annual Average Sales**”. If the Annual Average Sales is less than 11,000,000 proof gallons, the percentage in Section 6.1.6(b)(x) shall apply. If the Annual Average Sales exceeds 11,000,000 proof gallons, the percentage in Section 6.1.6(b)(y) shall apply.

6.2 **Diageo Obligations**

6.2.1

(a) Following the substantial completion of construction and commencement of commercial operation of the Project until the commencement of Phase Two of the Project and provided that (i) the Cover Over Revenue tax amount determined in accordance with Section 7652(b) of the U.S. Internal Revenue Code (the “**Cover Over Rate**”) is not reduced below its historic base level of US \$10.50 per proof gallon of relevant rum sales with respect to Aggregate Rum Sales (the “**Historic Base Level**”) and (ii) the Economic Development Incentives granted by the Government to Diageo have not been materially reduced or made unavailable to Diageo, Diageo shall produce at the Project bulk rum for sales of Captain Morgan branded products in the United States in amounts not less than those set forth in Exhibit D to this Agreement unless the occurrence of an Event of Force Majeure prevents such production.

(b) Following the commencement of Phase Two of the Project and provided that (a) the Cover Over Rate is not reduced below the Historic Base Level and (b) the Economic Development Incentives granted by the Government to Diageo have not been materially reduced or made unavailable to Diageo, subject to Section 3.1.4, Diageo shall produce at the Project all bulk rum for sales of Captain Morgan branded products in the United States unless the occurrence of

an Event of Force Majeure prevents such production or if the bulk rum requirements of the Captain Morgan brand of products exceeds the capacity of the Project at such time. If the bulk rum requirements of the Captain Morgan brand of products exceeds the production capacity of the Project by more than 15%, Diageo and the Government will work together to investigate the feasibility of expanding the production capabilities of the Project.

(c) Notwithstanding the ability of Diageo to construct the Project in two phases, Diageo agrees to proceed toward full optimization of the Project and the production of all bulk rum for sales of Captain Morgan branded products in the United States as soon as commercially feasible. Additionally, the Parties agree that following the date hereof Diageo may create new and innovative products within the Captain Morgan brand which cannot incorporate the bulk rum produced at the Project. In such event, Diageo shall use commercially reasonable efforts to include bulk rum from the Project into such products as soon as commercially feasible.

6.2.2 If at any time the Cover Over Rate is reduced below the Historic Base Level for a period greater than twelve (12) months or the Economic Development Incentives granted by the Government to Diageo are materially reduced or unavailable to Diageo for a period of greater than twelve (12) months, Diageo shall not be obligated to produce bulk rum at the Project and may terminate this Agreement with prior written notice to the Government.

6.2.3 If Diageo fails to produce bulk rum for sale into the United States from the Project in the amounts specified in Sections 6.2.1(a) and 6.2.1(b) except as expressly permitted therein, Diageo shall be considered to be in material default of its obligations under this Agreement (a "Material Default") and shall have 12 months following receipt of notice of such Material Default to cure such Material Default by producing the required amounts of bulk rum for sale into the United States. Following the occurrence and continuance of a Material Default for a twelve (12) month period, the Government may terminate this Agreement with prior written notice to Diageo. Upon termination of this Agreement pursuant to this Section 6.2.3, Diageo shall pay to the Government liquidated damages in an amount specified in Exhibit D to this Agreement.

6.2.4 If Diageo decides to forgo the grant financing proposed by Section 6.1 and procures alternative financing in lieu thereof, the Parties agree to amend this Agreement if and as necessary to reasonably preserve the economic and other benefits contemplated by the Parties in Articles III, IV, V and VII hereof and the receipt of amounts which would otherwise be deposited to the Diageo Project Pledged Revenue Account for the benefit of the Government and Diageo as set forth in Section 6.1.6(b) of this Agreement.

6.2.5 Following the initial issuance of the Diageo Project Bonds but no later than June 30, 2009 (it being understood that this date is not the date upon which the Diageo Project Bonds must be issued), the Parties agree to review in good faith and revise, if necessary, the figures set forth in Exhibit D hereof to reflect then current market

conditions. The Parties shall perform a similar exercise within six (6) months after the issuance of any additional Diageo Project Bonds.

6.2.6 Upon the issuance of the Diageo Project Bonds through completion of construction and commencement of commercial operation of the Project, Diageo shall maintain or cause to be maintained with respect to the Project, construction all risks and other forms of insurance typical for the construction of facilities of comparable size and type and the proceeds of such insurance shall be available to Diageo for the repair of any damage sustained to the Project during the applicable period.

6.2.7 After the completion of construction and commencement of commercial operation of the Project, during the period of time in which the Diageo Project Bonds remain outstanding or undefeased, following the occurrence of fire or other damage to the Project resulting in a commercially significant reduction in the output of rum that can be produced at the Project and that is caused by an event that is insurable at the time of the occurrence of the event at commercially reasonable rates, Diageo agrees to rebuild the Project and re-commence production of bulk rum at the Project as soon as reasonably possible after the occurrence of such event of loss at the levels of production required by this Agreement. If Diageo fails to so rebuild the Project and so re-commence production of bulk rum at the Project, such failure shall be a Material Default and the Government may take the actions specified in Section 6.2.3 above.

6.2.8 Diageo agrees to maintain commercially reasonable insurance against the property damage risks described in Section 6.2.7 above either as part of the global insurance program for the portfolio of facilities operated by the Diageo Group or on a stand-alone basis, at the discretion of Diageo. The proceeds from any claim made on such insurance shall be available to Diageo toward the satisfaction of its obligations under this Agreement.

ARTICLE VII PUBLIC SERVICE FACILITY

7.1 Community Service Facilities and Urban Redevelopment Projects

As provided in Section 6.1.6(b)(iii) hereof, three percent (3%) of the Annual Gross Cover Over Receipts shall be deposited in a Communities Facilities Trust account to be established and administered by the Virgin Islands Public Finance Authority, for the development, operations and maintenance of community and/or sports facilities or urban redevelopment projects on St. Croix and similar facilities an projects on St. Thomas or St. John which projects shall be recommended by the Governor and subject to approval by the Legislature. An advisory board shall be appointed by the Governor of the U.S. Virgin Islands with respect to such facilities and projects, whose membership shall include one representative selected by the Governor from a list of individuals proposed from time to time by Diageo.

ARTICLE VIII
REPRESENTATIONS, WARRANTIES, COVENANTS AND ACKNOWLEDGEMENTS

8.1 Representations, Warranties and Acknowledgements

The Government hereby represents and warrants to Diageo as of the date hereof and as of the Effective Date that:

(a) The Government is not prohibited from consummating the transactions contemplated in this Agreement by any law, regulation, agreement, instrument, restriction, order or judgment;

(b) The Government has: (i) the legal power, due authority and necessary and adequate funding ability to make the representations and perform its obligations set forth in this Agreement, or shall take all legally permitted and feasible actions necessary to obtain such legal power, due authority and necessary funding; (ii) duly obtained such approvals, authorizations, or consents in accordance with applicable law and procedures to the extent that the approval, authorization, or consent of the federal or any other local government or agency or any third party to make the representations and perform its obligations contained herein is required; and (iii) with respect to the funding commitments made by the Government hereunder, (x) such funding commitment has been, or on or prior to the date of issuance and disbursement of any proceeds thereof, and throughout the period that the same is outstanding, shall be properly budgeted and authorized pursuant to all applicable law;

(c) The Government knows of no material impediment which would prevent, impede, diminish or delay its timely performance of its obligations hereunder; and

(d) There are no actions, suits or proceedings pending or, to the best of the Government's knowledge, threatened against or affecting the Government before any court or administrative body or arbitral tribunal that could reasonably be expected to have a material adverse effect on the ability of the Government to meet and carry out its obligations under this Agreement.

8.1.2 Diageo hereby represents and warrants to the Government as of the date hereof and the Effective Date that:

(a) Diageo is a corporation duly organized and validly existing under the laws of U.S. Virgin Islands and has the corporate power and authority and has taken all necessary action authorizing it, to execute and deliver this Agreement and to perform its obligations hereunder.

(b) The execution, delivery and performance by Diageo of this Agreement do not violate or conflict with, or result in a default under, any contract or agreement to which Diageo is bound.

(c) Assuming due authorization, execution and delivery of this Agreement by the Government, this Agreement is the legal, valid and binding obligation of Diageo, enforceable against it in accordance with its terms, subject to the effects of bankruptcy or insolvency or laws affecting creditors' rights generally.

(d) There are no actions, suits or proceedings pending or, to the best of Diageo's knowledge, threatened against or affecting Diageo before any court or administrative body or arbitral tribunal that could reasonably be expected to have a material adverse effect on the ability of Diageo to meet and carry out its obligations under this Agreement.

(e) Neither Diageo nor any of its shareholders or their affiliates is involved in any litigation, arbitration or claim against the Government.

(f) Diageo is a direct, wholly-owned subsidiary of Selviac Nederland B.V. ("Selviac").

(g) Selviac, an indirect, wholly-owned subsidiary of Diageo plc, has duly authorized the execution, delivery and performance by Diageo of this Agreement.

8.2 Special Levies

The Government represents and warrants that, without the prior written consent of Diageo, no Government entity shall: (a) levy against any real or personal property constituting the Project, any special assessment or special tax for the cost of any improvements in or for the benefit of the Project; (b) undertake any local improvements in, on or for the benefit of the Project pursuant to the imposition of a special assessment or special tax against any real or personal property within the Project Site; (c) levy or impose additional taxes on any real or personal property within the Project Site, in the manner provided by law for the provision of special services to the Project or to an area in which the Project Site is located or for the payment of debt incurred in order to provide such special services; or (d) permit or approve the imposition of any recapture fees that are applicable to the Project or Project Site. Nothing in this Section 8.2 shall prevent the Government from levying or imposing additional taxes upon the Project or Project Site in the manner provided by law which are applicable to and applied equally to all other properties within the Virgin Islands and which are not contrary to the agreements reached herein as implemented from time to time.

8.3 Make-Whole Actions

8.3.1 The Government and Diageo each assert that it enters into this Agreement based upon certain objectives and expectations, more specifically described below in this Section 8.3. The Government and Diageo each further acknowledge and agree that it is not possible to predict, consider and provide for all future changes, circumstances or contingencies affecting the performance or implementation of this Agreement. Therefore, in order to preserve the basis upon which the Agreement is entered into by the

Government and Diageo, the Government and Diageo each agree to the terms and conditions set forth in this Section 8.3.

8.3.2 The Government acknowledges and agrees that Diageo has entered into this Agreement in material reliance on each and all of the obligations and commitments of the Government under this Agreement, as a package and without exception, with the reasonable expectation that Diageo will receive all of the benefits of such obligations and commitments, including, without limitation, receipt of benefits in the form of the Marketing Support Payments, Molasses Subsidy Payments and Production Incentive Payments described in Article V of this Agreement.

8.3.3 The Government and Diageo each further agree and acknowledge that it is not possible to predict, consider or provide for all future changes, circumstances or contingencies affecting the performance or implementation of this Agreement. Therefore, the Government represents, warrants and covenants to Diageo that in the event of a change in law, or any other act, event or circumstance, the result of which would be to diminish, impede, impair or prevent in connection with the Project the full performance after the Effective Date of any or all of the obligations and commitments made by the Government, the Government shall exercise its best efforts to, and to the extent permitted by law shall, provide Diageo either with an exemption from the law as so changed or otherwise with another obligation or commitment reasonably acceptable to Diageo and having economic effect equivalent to the commitment so lessened or removed. If the Government fails to provide such exemption or other commitment, such failure shall be an impairment of this Agreement. In furtherance of the foregoing, in the event that Incremental Cover Over Revenues attributable to the Project are for any reason received by the Government but are not available to satisfy the Government's payment obligations to Diageo hereunder, the Government agrees to fund such obligations from other sources to the extent permitted by law.

8.3.4 The Government agrees to use reasonable efforts to strenuously oppose any proposed legislation, initiative, act, event, plan or proposal which would otherwise have the effect of voiding or reducing any of the obligations or commitments as set forth in this Agreement. To the extent an initiative would negatively impact the full performance after the Effective Date of any or all of the obligations or commitments made by the Government, the Government shall take all legally appropriate steps to defend the obligations and commitments contained herein.

8.3.5 Diageo acknowledges and agrees that the Government has entered into this Agreement in material reliance on each and all of the obligations and commitments of Diageo under this Agreement, as a package and without exception, with the reasonable expectation that the Government will receive all the benefits contemplated to inure to it under the terms of this Agreement.

8.3.6 The Government and Diageo each acknowledge and agree that: (a) the objectives and expectations set forth in this Section 8.3 are reasonable; (b) the commitments and obligations set forth in this Section 8.3 are intended to be continuous throughout the duration of this Agreement and (c) that the terms and conditions set forth

in this Section 8.3 are material to this Agreement and intended to be enforced to the maximum extent possible.

8.4 Acknowledgements

The Government and Diageo agree and acknowledge that:

8.4.1 Diageo would not have considered locating the Project in the Virgin Islands without the obligations and commitments to be provided by the Government hereunder for the entire period for which such obligations and commitments are to be made available during the Term of this Agreement.

8.4.2 The Government would not have considered granting the benefits and exemptions to be provided to Diageo under the terms of this Agreement without the obligations and commitments to be provided by Diageo as set forth in this Agreement.

8.4.3 The Parties will exercise their best efforts and take all actions to fulfill and maintain the obligations and commitments that they have made for the specific period referenced herein.

8.4.4 The Government will not pledge, encumber or otherwise restrict the Incremental Cover Over Revenues attributable to the Project in any manner that will prevent the Government from paying the Marketing Support Payments, Molasses Subsidy Payments and Production Incentive Payments and performing its other obligations and commitments described herein.

8.4.5 Diageo has relied upon the continued performance of the Government's obligations and commitments for their specified duration in connection with its decision to locate the Project at the Project Site.

8.4.6 This Agreement has been the subject of arm's-length negotiations between Diageo and the Government and it is the intent of the Government that this Agreement constitutes an enforceable contract.

8.5 Negative Covenants

Without the prior written consent of Diageo, the Government, to the extent permitted by law, shall not take, approve, assist or allow any action, or fail to take, approve, assist or allow any action, if such action or failure to act, as the case may be, is reasonably likely to adversely affect, diminish or impair the beneficial use, operation, utility or occupancy of the Project or the ability of Diageo to beneficially use, occupy, obtain, receive or otherwise enjoy any of: (i) the physical sites, facilities, improvements, programs, financial incentives or other benefits existing as of the Effective Date and contemplated by any portion of this Agreement, or (ii) the obligations or other commitments of the Government contemplated by, or set forth in, this Agreement. In addition, and without limitation, the Government specifically agrees that subject to the terms of the existing Matching Fund Bond Indenture and the Diageo Project Bond Indenture, it shall not encumber any of the Incremental Cover Over Revenues that are intended to finance the Marketing Support Payments, Molasses Subsidy Payments and Production

Incentive Payments to Diageo either through the issuance of Additional Bonds (as such term is defined in the Matching Fund Bond Indenture) based on such additional revenues or otherwise.

ARTICLE IX REMEDIES

9.1 Remedies

9.1.1 The Parties expressly agree and recognize that, with respect to breach of certain of the covenants, agreements, representations, warranties or commitments contained herein, the Parties may not be fairly or adequately compensated by any legal remedy in an action for monetary damages. Therefore, the Parties agree that upon a breach of this Agreement, the non-defaulting party, in accordance with the dispute resolution procedures set forth in Section 10.3 hereof, may seek the specific performance of any of the covenants, agreements, representations, warranties or commitments contained herein or may be awarded damages for failure of performance or breach of any representation or warranty, or both, to the extent permitted by applicable law. No action taken by such Party pursuant to the provisions of this Section 9.1 or pursuant to the provisions of any other Section of this Agreement shall be deemed to constitute an election of remedies, and all remedies set forth in this Agreement shall be cumulative and non-exclusive of any other remedy either set forth herein or available to the Parties at law or in equity. Notwithstanding the foregoing, the sole remedy of the Government for the continued occurrence of a Material Default (as defined in Section 6.2.3) shall be the receipt of the liquidated damages payment and termination right referred to in Section 6.2.3. The Government may not terminate this Agreement for any default other than a Material Default.

9.1.2 No claim may be made by one Party against the other Party for any special, indirect, consequential, incidental or punitive damages in respect of any claim for breach of contract or any other theory of liability arising out of or relating to this Agreement or the development, construction or operation of the Project or any act, omission or event occurring in connection therewith and the Parties hereby waive, release and agree not to sue upon any claim for such damages.

9.1.3 In the event that Diageo abandons the Project, prior to the earlier to occur of the issuance of the Diageo Project Bonds or commencement of commercial operation of the Project, in breach of its obligations under this Agreement and provided that the Government has complied with its obligations under this Agreement, the Parties agree that the amount of the damages to be incurred by the Government may be difficult or impossible to determine and therefore the Parties agree that Diageo shall pay to the Government an amount equal to US \$25 million as liquidated damages for such failure to perform its obligations hereunder.

ARTICLE X
MISCELLANEOUS

10.1 **Counterparts**

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

10.2 **Governing Law**

The governing law of this Agreement shall be the law of the Territory of the United States Virgin Islands.

10.3 **Dispute Resolution**

10.3.1 Mutual Discussions. Except as otherwise provided in this Section 10.3, if a dispute or difference of any kind whatsoever shall arise among the Parties in connection with, relating to or arising out of this Agreement (each, a “Dispute”), one of such Parties shall notify the other of such Dispute. Such Parties shall attempt to settle such Dispute in the first instance by mutual discussions between their respective designated representatives. Failing such resolution, the Project Coordinator and the President of Diageo (or their duly appointed representatives) shall meet to resolve such Dispute and the joint decision of such individuals shall be binding upon the Parties hereto. If a settlement of any such Dispute or difference is not reached pursuant to this Section 10.3.1 within 60 days after such notice of Dispute is delivered, then the provisions of Section 10.3.2 hereof shall apply.

10.3.2 Mediation. If a settlement of any such Dispute or difference is not reached pursuant to Section 10.3.1, the Parties agree to submit the matter to mediation. The process for mediation shall be governed by the procedures set forth in Rule 3.2 of the Local Rules of the District Court of the Virgin Islands.

10.3.3 Judicial Resolution.

(a) If the settlement of any Dispute or difference (other than those addressed in Section 10.3.3(b) below) is not reached pursuant to Sections 10.3.1 or 10.3.2 above, then either party may initiate a lawsuit including but not limited to one for breach of contract for damages, subject to the restrictions set forth in Section 9.1.2 hereof, in a court of competent jurisdiction in the United States Virgin Islands. The Parties agree and hereby waive any right to a jury trial, and such proceeding, should it proceed to trial, shall be a bench trial.

(b) If the settlement of any Dispute or difference related to the applicability or payment of liquidated damages under this Agreement by Diageo (other than liquidated damages payable pursuant to Section 9.1.3 which dispute resolution process shall be governed by Section 10.3.3(a) above) is not reached pursuant to Sections 10.3.1 or 10.3.2 above, then either Party may initiate a

proceeding for the adjudication of such Dispute, subject to the restrictions set forth in Section 9.1.2 hereof, in the United States District Court of the Virgin Islands. If the United States District Court of the Virgin Islands or the Third Circuit Court of the United States refuses for any reason to adjudicate such Dispute, the Parties agree that the provisions of Section 10.3.3(c) shall apply.

(c) If a Dispute cannot be settled pursuant to Section 10.3.3(b) above, such Dispute shall be determined by arbitration administered by the American Arbitration Association (“AAA”). The number of arbitrators shall be three. Within thirty (30) days of delivery of the request for arbitration, each party shall appoint one (1) arbitrator. If the two party appointed arbitrators do not reach an agreement on the appointment of a third arbitrator who shall serve as the chairman of the tribunal within fifteen (15) days of their appointment, the AAA shall appoint the third arbitrator. The language of the arbitration shall be English. Judgment upon any award(s) rendered by the arbitrators may be entered in any court having jurisdiction thereof. Nothing in this Agreement shall prevent either party from seeking provisional measures from any court of competent jurisdiction, and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate.

10.3.4 Continued Performance. The Parties shall continue to perform their respective obligations under this Agreement during the existence of any Dispute under this Agreement or the pendency of any mediation or arbitration.

10.3.5 Commercial Acts. The Parties each agree that the execution, delivery and performance of this Agreement constitute private and commercial acts rather than public or governmental acts.

10.4 Rules of Interpretation

In this Agreement, unless the context otherwise requires, headings are for convenience only and do not affect the interpretation of this Agreement; a reference to an Exhibit, Article or Section is a reference to that Exhibit to, or Article or Section of, this Agreement; a reference to a document includes any amendment or supplement to, or replacement or novation of, that document; a reference to the singular includes the plural and vice versa; the words “include,” “includes,” and “including” mean include, includes, and including “without limitation” and “without limitation by specification,” and any list or series following any such term is: (a) not exhaustive and (b) not meant to be limited to elements or items of the same or similar kind; and the words “hereof”, “herein” and “hereunder”, or “thereof”, “therein” and “thereunder” and words of similar import when used shall refer to this Agreement or any other agreement as a whole and not to any particular provision.

10.5 Construction

This Agreement shall not be construed more strictly against one Party than against any other Party merely by virtue of the fact that the Agreement may have been prepared by counsel

for one of the Parties, it being recognized that all Parties have contributed substantially and materially to the preparation of this Agreement.

10.6 **Conflicts**

Subject to Section 10.2 hereof, all statutes, codes, ordinances, rules and regulations in effect in the Virgin Islands as of the date hereof shall continue in effect in their current form during the entire Term of this Agreement, except as may otherwise be agreed to by Diageo in writing and except to the extent of amendments mandated by Government or federal requirements. Notwithstanding the foregoing, if any of any statute, code, ordinance, rule or regulation is hereafter adopted, amended or interpreted so as to be less restrictive upon Diageo than is currently the case, then at the option of Diageo, such less restrictive amendment or interpretation shall control and become applicable without the requirement of an amendment to this Agreement.

10.7 **Severability**

In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect and for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. In the event any such provision is held to be invalid, illegal or unenforceable, the Parties hereto shall make their best efforts to agree on a provision in substitution for such invalid, illegal or unenforceable provision that is as near in economic benefit as possible to the provision found to be invalid, illegal or unenforceable.

10.8 **Notices**

All communications and notices expressly provided for herein shall be sent, by registered first class mail, postage prepaid, by a nationally recognized overnight courier for delivery on the following business day or by telecopy (with such telecopy to be confirmed promptly in writing sent by mail or overnight courier as aforesaid), as follows:

GOVERNMENT OF THE UNITED
STATES VIRGIN ISLANDS:

Governor
Government House
21-22 Kongens Gade
St. Thomas, US Virgin Islands 00802
Telephone: 340-774-1000
Telefax: 340-777-6234

WITH A COPY TO:

Commissioner
Virgin Islands Department of Property &
Procurement
Bldg. 1, Subbase –
3rd Floor
St. Thomas, US Virgin Islands 00802
Telephone: 340-774-3320
Telefax: 340-714-9511

Virgin Islands Public Finance Authority
No. 32-33 Kongens Gade
P.O. Box 430
St. Thomas, U.S. Virgin Islands 00804-0430
Telephone: 340-714-1635
Telefax: 340-714-1636
Attention: Director of Finance and
Administration

Attorney General of the Virgin Islands
Virgin Islands Department of Justice
3438 Kronprindsens Gade
GERS Building 2nd Floor
St. Thomas, US Virgin Islands 00802
Telephone: 340-774-5666
Telefax: 340-774-9710

DIAGEO:

Diageo USVI Inc.
c/o G. Hunter Logan, Jr, Esq.
Nichols Newman Logan & Grey, P.C.
1131 King Street
Christiansted, St. Croix
US Virgin Islands 00820
Telephone: 340-773-3200
Telefax: 340-773-3409

WITH COPIES TO:

Selviac Nederland B.V.
Molenwerf 10-12
1014 BG Amsterdam, the Netherlands
Telephone: 31-20-774-5095
Telefax: 31-20-774-5091
Attention: Legal Director

Diageo Netherlands Holdings B.V.
Molenwerf 10-12
1014 BG Amsterdam, the Netherlands
Telephone: 31-20-774-5095
Telefax: 31-20-774-5091
Attention: Legal Director

DLA Piper US LLP
1200 Nineteenth Street, N.W.
Washington D.C. 20036-2412
Telephone: 202-861-3900
Telefax: 202-223-2085
Attention: John Merrigan

or to such other address as the receiving Party shall have most recently forwarded to the sending Party pursuant to the provisions of this Section 10.8.

10.9 **Press Releases**

The Parties agree to cooperate fully with each other in connection with all press releases and publications concerning the Project.

10.10 **Assignment**

This Agreement is not assignable by the Government in whole or in part except where Diageo consents, in its sole discretion, to such assignment in writing. Diageo shall have the right at any time to assign all its rights and obligations, or any part thereof, in and to this Agreement, or any part thereof, to any Affiliate of Diageo that agrees to assume the assigned obligations of Diageo in and to this Agreement or applicable portion thereof; provided, however, that proof of the ability of such Affiliate to fulfill any assigned obligations shall be provided to the Government as part of the advance notice by Diageo. The Government may object to such assignment if it reasonably appears that the Affiliate of Diageo lacks such ability. Diageo shall provide the Government at least thirty (30) days advance written notice of its intention to assign this Agreement. The Government shall receive a copy of the written agreement of the Affiliate of Diageo to agree to assume all assigned obligations and shall acknowledge to the Government its ability to fulfill such obligations.

10.11 **No Third Party Beneficiary**

This Agreement is for the sole and exclusive benefit of the Government and Diageo and, if applicable, any permitted successors, transferees or assigns thereof. No other persons or entities are intended third party beneficiaries of this Agreement, including, without limitation, any third parties that may, from time to time, have ownership, security or other interests in any real or personal property associated with the Project, nor shall such third parties have any rights to enforce any of the provisions of this Agreement.

10.12 **Contractual Relationship**

None of the commitments or other obligations, agreements or provisions contained in this Agreement shall or shall be deemed to give the Government the right or power to exercise control over the affairs or management of Diageo or any of its Affiliates, the Project or any part thereof. The relationship between the Government and Diageo is, and at all times shall remain, contractual. No commitment or other obligation, agreement or provision of this Agreement, nor any agreement executed pursuant hereto, is intended, nor shall it be deemed or construed, to create a partnership, joint venture, agency or common interest between or among the Government and Diageo or to create any equity interest in the Project for the Government. Notwithstanding any other provision of this Agreement or agreement executed pursuant hereto, the Government is not and shall not be construed as a partner, joint venturer, alter ego, manager, controlling person or other business associate or participant of any kind of Diageo, its stockholders, members, or partners or the Project.

10.13 **Further Assurances**

The Government and Diageo agree to do all things and take all actions required, necessary or appropriate to carry out the terms of this Agreement and the implementation of the Parties' intent as reflected by the terms of this Agreement. Such things and actions include, but are not limited to, the obtaining, negotiation, execution and delivery of all necessary or desirable agreements, filings, consents, authorizations, approvals, licenses or deeds. Without limiting the generality of the foregoing, the Parties agree: (a) to take all actions, without exception, which are necessary and appropriate at any time to assure the binding effect, legality and enforceability of their respective obligations and commitments hereunder and (b) not to take any action which would affect adversely in any way whatsoever the binding effect, legality and enforceability of their respective obligations and commitments hereunder.

10.14 **Survival of Representations and Warranties**

The representations, warranties and covenants made by each of the Parties hereto and contained herein shall survive the performance of any obligations to which such representations, warranties and covenants relate.

10.15 **Term of Agreement**

The term of this Agreement (the "Term") shall commence on the Effective Date and continue in effect through the later to occur of the thirtieth (30th) anniversary of the Effective Date and the date on which the Diageo Project Bonds issued pursuant to Article VI of this

Agreement are no longer outstanding, which date for the term of this Agreement may be extended by Diageo for a period of thirty (30) additional years upon the delivery of written notice to the Government by Diageo no later than thirty (30) days prior to the anticipated expiration of the Term. Upon the termination of this Agreement, Diageo shall retain ownership of the Project and the Project Site. The Parties agree that if the Effective Date shall not occur by July 31, 2008, this Agreement shall terminate.

10.16 **Binding Effect**

This Agreement and all terms, provisions and obligations set forth herein shall be binding upon and shall inure to the benefit of the Government and Diageo and their respective successors and assigns.

10.17 **Waivers**

Waiver of any of the obligations of a Party set forth in this Agreement may only be effected, in writing, by the other Party hereto. No delay or omission to exercise any right or power by any Party shall be construed to be a waiver. In the event any provision is waived by a Party, such waiver shall not be deemed to waive any other provision.

10.18 **Entire Agreement**

This Agreement is the entire agreement and supersedes all prior and collateral communications and agreements of the Parties relating to the subject matter.

10.19 **Amendments**

This Agreement may be amended only by a written modification duly executed by the Parties' authorized representatives.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGES FOLLOW]

WHEREFORE, the Parties hereto have executed this Agreement as of the date first written above.

DIAGEO USVI INC.

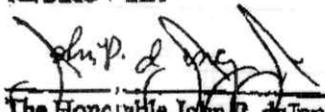
By: _____

Name: ARISTO PEREZ

Title: DIRECTOR

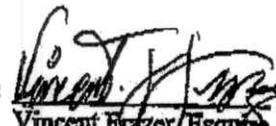
GOVERNMENT OF THE VIRGIN ISLANDS

APPROVED:



The Honorable John P. deJongh, Jr.
Governor of the U.S. Virgin Islands

APPROVED as to legal sufficiency,

By: 

Vincent Frazier, Esquire
Attorney General

EXHIBIT A

Basic Components of Completed Project

Product: 20,000,000 pg per year of light column still rum

Raw material: Molasses

Days of operation: 250

Operations and Cost Areas

1. Land
 - a. Estimated area of 40 to 50 acres.
 - b. Water will be treated and some can be reused, but it must also be possible to discharge clean water from the site.
 - c. Access to import and export facilities near a port.
2. Civil work including roads, cement pads, grading, fences, and drainage.
3. Buildings including still tower and other administration buildings as required.
 - a. Still tower
 - b. Offices for all administrative personnel
 - c. Laboratory
 - d. Quality control
 - e. Guard houses
 - f. Shift operators and supervisors offices
 - g. Maintenance
 - h. Control room
 - i. Yeast and fermentation structure
4. Loading and unloading equipment including
 - a. Weigh scales
 - b. Rum loading rack
5. Utilities
 - a. Boiler including water treatment
 - b. Cooling tower including water treatment
 - c. RO unit to process water
 - d. Demin treatment
 - e. CIP system
 - f. Fire prevention system

6. Molasses Storage for 1 year
7. Yeast and fermentation
8. Distillation
9. Tanks for intermediate products, final run down tanks, final bonded storage, and tanks for barreling
10. Potential Barrel warehouse, on site or off site, with loading and unloading facilities for 24,000,000 mpg's at 150 proof barrels
11. Barrels for bulk rum maturation

EXHIBIT B

MARKETING ACTIVITIES

Potential Marketing Activities

Media-Television

Media-Digital

Media-Other

Advertising Production

Creative Agency Fees

Relationship Marketing

Relationship Market Agency Fees

Consumer Public Relations

Trade Public Relations

Consumer Sponsorships

Innovation/Product Development

Brand Identification / Packaging Development

Consumer Planning and Research

Experimental Marketing / Sampling

Point of Sale

Consumer Promotions

Value Added Packaging

Promotional Taxes

Commercial Advertising and Promotion

Discounts and consideration to customers

EXHIBIT C

PROJECTED AGGREGATE RUM SALES

| | <u>Low</u> | | <u>Base</u> | |
|--------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | <u>YoY Growth</u> | <u>Volume (m PG)</u> | <u>YoY Growth</u> | <u>Volume (m PG)</u> |
| CY2011 | | | | |
| CY2012 | 1.0% | 10.1 | 4.0% | 12.0 |
| CY2013 | 0.5% | 10.2 | 3.0% | 12.3 |
| CY2014 | 0.0% | 10.2 | 3.0% | 12.7 |
| CY2015 | 0.0% | 10.2 | 3.0% | 13.1 |
| CY2016 | 0.0% | 10.2 | 2.0% | 13.3 |
| CY2017 | 0.0% | 10.2 | 2.0% | 13.6 |
| CY2018 | 0.0% | 10.2 | 2.0% | 13.9 |
| CY2019 | 0.0% | 10.2 | 2.0% | 14.1 |
| CY2020 | 0.0% | 10.2 | 2.0% | 14.4 |
| CY2021 | 0.0% | 10.2 | 2.0% | 14.7 |
| CY2022 | 0.0% | 10.2 | 1.0% | 14.9 |
| CY2023 | 0.0% | 10.2 | 1.0% | 15.0 |
| CY2024 | 0.0% | 10.2 | 1.0% | 15.2 |
| CY2025 | 0.0% | 10.2 | 1.0% | 15.3 |
| CY2026 | 0.0% | 10.2 | 1.0% | 15.5 |
| CY2027 | 0.0% | 10.2 | 0.0% | 15.5 |
| CY2028 | 0.0% | 10.2 | 0.0% | 15.5 |
| CY2029 | 0.0% | 10.2 | 0.0% | 15.5 |

EXHIBIT D¹

MINIMUM RUM PRODUCTION REQUIREMENTS

| Year | Min Production (PG) | Liquidated Damages Payable (\$m) | | | | | | | | |
|------|---------------------|--|-----|-----|-----|-----|-----|-----|-----|-----|
| | | US 5-Year Treasury Rate in Year of Claim | | | | | | | | |
| | | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% |
| 2009 | - | 303 | 277 | 254 | 233 | 213 | 196 | 179 | 164 | 151 |
| 2010 | - | 314 | 291 | 270 | 251 | 233 | 217 | 202 | 188 | 175 |
| 2011 | - | 329 | 309 | 290 | 273 | 257 | 242 | 228 | 215 | 204 |
| 2012 | 1,500,000 | 332 | 314 | 296 | 280 | 265 | 251 | 239 | 227 | 216 |
| 2013 | 1,800,000 | 322 | 306 | 292 | 279 | 267 | 255 | 245 | 234 | 224 |
| 2014 | 1,800,000 | 312 | 298 | 286 | 274 | 262 | 252 | 242 | 234 | 225 |
| 2015 | 1,800,000 | 297 | 286 | 276 | 266 | 257 | 248 | 240 | 233 | 226 |
| 2016 | 1,800,000 | 282 | 273 | 266 | 258 | 251 | 244 | 238 | 232 | 227 |
| 2017 | 1,800,000 | 266 | 260 | 255 | 249 | 244 | 239 | 235 | 231 | 227 |
| 2018 | 1,800,000 | 251 | 247 | 244 | 240 | 237 | 234 | 232 | 230 | 228 |
| 2019 | 1,800,000 | 234 | 233 | 232 | 231 | 230 | 229 | 229 | 229 | 229 |
| 2020 | 1,800,000 | 223 | 223 | 223 | 223 | 223 | 223 | 223 | 223 | 223 |
| 2021 | 1,800,000 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 |
| 2022 | 1,800,000 | 209 | 209 | 209 | 209 | 209 | 209 | 209 | 209 | 209 |
| 2023 | 1,800,000 | 202 | 202 | 202 | 202 | 202 | 202 | 202 | 202 | 202 |
| 2024 | 1,800,000 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 | 194 |
| 2025 | 1,800,000 | 185 | 185 | 185 | 185 | 185 | 185 | 185 | 185 | 185 |
| 2026 | 1,800,000 | 176 | 176 | 176 | 176 | 176 | 176 | 176 | 176 | 176 |
| 2027 | 1,800,000 | 166 | 166 | 166 | 166 | 166 | 166 | 166 | 166 | 166 |
| 2028 | 1,800,000 | 156 | 156 | 156 | 156 | 156 | 156 | 156 | 156 | 156 |
| 2029 | 1,800,000 | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 |
| 2030 | 1,800,000 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 |
| 2031 | 1,800,000 | 119 | 119 | 119 | 119 | 119 | 119 | 119 | 119 | 119 |
| 2032 | 1,800,000 | 106 | 106 | 106 | 106 | 106 | 106 | 106 | 106 | 106 |
| 2033 | 1,800,000 | 91 | 91 | 91 | 91 | 91 | 91 | 91 | 91 | 91 |
| 2034 | 1,800,000 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 |
| 2035 | 1,800,000 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 |
| 2036 | 1,800,000 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| 2037 | 1,800,000 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 |

The liquidated damage amount payable shall be based on the 5 Year Treasury Bill Rate, as reported by the Wall Street Journal, applicable on the date such amount becomes due. If the exact required Treasury Bill Rate is not specified on the table above, the required rate and resultant liquidated damage amount shall be interpolated using the amounts provided above.

¹ This Exhibit D has been revised as of June 26, 2009 by agreement of the Parties pursuant to the provisions of the Section 6.2.5 of the Agreement.

Handwritten signatures and initials, including what appears to be 'JJA' and 'gnsio'.

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DIAGEO USVI

June 25, 2009

The Honorable John P. de Jongh, Jr.
Governor
Government House
21-22 Kongens Gade
St. Thomas, Virgin Islands 00802

Dear Governor:

Reference is made to the Agreement between Diageo USVI Inc., and the Government of the United States Virgin Islands, dated as of June 17, 2008 (the "Diageo Agreement"). Capitalized terms used herein shall have the same meanings as set forth in the Diageo Agreement.

During our negotiation for the past several weeks with respect to the proposed issuance of the Diageo Project Bonds, it has come to our attention that due to an error in the language contained in Section 6.2.1(a), such section does not truly reflect the intentions of the parties, including Diageo, and we hereby agree that notwithstanding the current provisions of Section 6.2.1(a), we confirm that such section shall be deemed to read as follows:

"(a) Following the initial issuance of the Diageo Project Bonds and provided that (i) the Cover Over Revenue tax amount determined in accordance with Section 7652(b) of the U.S. Internal Revenue Code (the "Cover Over Rate") is not reduced below its historic base level of US \$10.50 per proof gallon of relevant rum sales with respect to Aggregate Rum Sales (the "Historic Base Level") and (ii) the Economic Development Incentives granted by the Government to Diageo have not been materially reduced or made unavailable to Diageo, Diageo shall produce at the Project bulk rum for sales of Captain Morgan branded products in the United States in amounts not less than those set forth in Exhibit D to this Agreement unless the occurrence of an Event of Force Majeure prevents such production."

In the event of any dispute between the language originally contained in Section 6.2.1(a) and the substituted language set forth above, such substituted provisions shall prevail.

Except as set forth above, the Diageo Agreement remains in full force and effect in accordance with its terms.

Very truly yours

DIAGEO USVI INC.

By: 

Gabriel Bisio
Corporate Secretary

Agreed and Accepted

GOVERNMENT OF UNITED STATES VIRGIN ISLANDS

By: 
Name: _____
Title:

APPENDIX C

FORM OF THE DIAGEO PROJECT IMPLEMENTATION AGREEMENT

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DIAGEO PROJECT IMPLEMENTATION AGREEMENT

by and among

UNITED STATES VIRGIN ISLANDS,

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY,

DIAGEO USVI INC.

and

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee**

Dated as of June 1, 2009

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DIAGEO PROJECT IMPLEMENTATION AGREEMENT

THIS DIAGEO PROJECT IMPLEMENTATION, dated as of June 1, 2009 (this “Agreement”), by and among the UNITED STATES VIRGIN ISLANDS (the “Government”), acting by and through the Governor of the Virgin Islands, the VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY (the “Authority”), DIAGEO USVI INC. (“Diageo”) and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee under the Subordinated Indenture hereinafter defined;

W I T N E S S E T H:

WHEREAS, pursuant to and in accordance with the criteria and guidelines established by the Authority, and in connection with a certain Agreement dated as of June 17, 2008, as supplemented by a Letter from Diageo, accepted by the Government, dated June 25, 2009 (collectively, the “Diageo Agreement”), by and between Diageo and the Government, ratified by Act No. 7012 of the Legislature of the Virgin Islands (the “Legislature”), as amended by Act No. 7062 by the Legislature, the Authority has authorized and undertaken to issue one or more series of bonds, notes or other evidence of indebtedness to be designated as its Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Notes-Diageo Project) in the aggregate principal amount of up to \$250,000,000 (collectively, the “Bonds”), pursuant to the Subordinated Indenture (as hereinafter defined), the proceeds of which Bonds shall be used to provide a grant to Diageo for the purpose of financing certain costs of the acquisition, design, construction and equipping of a fully operational, state-of-the-art facility, together with all related utilities and transportation improvements and subsequent improvements and facilities necessary and appurtenant thereto (the “Diageo Project”), for the (y) production of rum, to be located at the St. Croix Renaissance Industrial Park, Christiansted, St. Croix (the “Rum Distillery Facility”), and (z) the storage of rum, to be located at Plot 25 Estate Diamond, Prince Quarter, Christiansted, St. Croix (the “Rum Warehouse Facility”, and together with the Rum Distillery Facility, the “Facilities”);

WHEREAS, the Authority will lend the proceeds of the Bonds to the Government to provide the grant to finance the Diageo Project in accordance with the Loan Agreement and the Diageo Agreement and, in order to evidence such debt obligation, the Government will issue to the Authority the Government's Loan Notes (as hereinafter defined), as limited obligations of the Government secured solely by a pledge of the Diageo Matching Fund Revenues (as defined in the Subordinated Indenture);

WHEREAS, pursuant to a Subordinated Indenture of Trust (the "Subordinated Indenture of Trust"), as supplemented from time to time, including as supplemented by a First Supplemental Subordinated Indenture of Trust (the "First Supplemental Subordinated Indenture", and together with the Subordinated Indenture of Trust, the "Subordinated Indenture"), each dated as of June 1, 2009, and each by and between the Authority and the Trustee, authorizing up to \$250,000,000 of Matching Fund Loan Notes, (collectively, the "Loan Notes") of the United States Virgin Islands, the Government will issue one or more Loan Notes and the Authority will issue Bonds in anticipation of receipt of Diageo Matching Fund Revenues (as defined in the Subordinated Indenture);

WHEREAS, in order to provide for the timely payment of the Loan Notes the Government has assigned the Diageo Matching Fund Revenues to the Authority to satisfy its obligations under the Loan Agreement, dated as of June 1, 2009 (the "Loan Agreement"), by and among the Government, the Authority and the Trustee and the Government, the Authority and The Bank of New York Mellon Trust Company, N.A., as Diageo Special Escrow Agent (the "Diageo Special Escrow Agent"), have entered into a Diageo Special Escrow Agreement, dated as of June 1, 2009 (the "Diageo Special Escrow Agreement"); and

WHEREAS, in connection with the interim financing for the Diageo Project, the Authority has authorized the issuance and delivery of the \$29,615,000 Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes - Diageo Project) (the "2009 Series A Bond Anticipation Notes") for direct purchase by J.P. Morgan Securities Inc. (the "Purchaser");

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

Section 1. All capitalized terms used herein shall have the meanings set forth in the Subordinated Indenture or the Diageo Agreement unless otherwise indicated.

Section 2. For purposes of effectuating certain provisions of the Diageo Agreement, the Government and Diageo hereby agree as follows:

(a) Pursuant to Section 3.2 of the Diageo Agreement, Paul Arnold shall be designated the initial Project Coordinator, which Project Coordinator may be replaced at the sole discretion of the Government.

(b) The Government has established Account #440712 held by The Bank of New York Mellon Trust Company, N.A. on behalf of the Government and designated the “Government Account”, for purposes of making the necessary deposits pursuant to Sections 6.1.6(b)(ii) of the Diageo Agreement, subject to any adjustments, as appropriate in accordance with Section 5.4.1 of the Diageo Agreement.

(c) The Government has established Account #440713 held by The Bank of New York Mellon Trust Company, N.A. on behalf of the Authority and designated the “Communities Facilities Trust”, for purposes of making the necessary deposits pursuant to Sections 6.1.6(b)(iii) and 7.1 of the Diageo Agreement.

(d) Diageo has established Account #796707420, ABA No. 021000021, SWIFT: CHASUS33 held by JPMorgan Chase Bank on behalf of Diageo and designated the “Surplus Receipts Account” for purposes of any required deposits of the Marketing Support Payments, the Molasses Subsidy Payments and the Production Incentive Payments together with any “True-Up Amount” due from the Government to Diageo, pursuant to Section 6.6(b)(iv) and Article V of the Diageo Agreement, all in accordance with the Diageo Special Escrow Agreement.

Section 3. The Trustee acknowledges and agrees to make any deposits requested in accordance with the Diageo Special Escrow Agreement and the Diageo Agreement in the accounts referenced in Sections 2(b) through (d) hereof, as directed by the Government, the Authority or Diageo, as applicable, upon the certification of such amounts by the Calculation Agent. Each of the Government, the Authority and Diageo agree to hold the Trustee harmless in any way therefor.

Section 4. No Additional Senior Lien Bonds or Additional Second Lien Bonds shall be issued under the Subordinated Indenture, nor shall any Subordinated Revenue Bonds be redeemed (other than any Mandatory Sinking Fund Requirements, if required under a Subordinated Supplemental Indenture) or any Qualified Swap Agreement be entered into pursuant to the Subordinated Indenture, without, in each case, the prior written consent of Diageo, establishing satisfaction of the conditions for issuance of Additional Bonds under the Senior Indenture, as amended, and certifying satisfaction of the Government's obligations under the Diageo Agreement, which consent shall not be unreasonably withheld or delayed.

Section 5. The parties hereto agree that, upon any event of Material Default under the Diageo Agreement and redemption and/or defeasance of Subordinated Revenue Bonds under the Subordinated Indenture, other than Mandatory Sinking Fund Requirements, the Government shall deliver all sums received by the Government as liquidated damages pursuant to the Diageo Agreement and shall cause the Paying Agent under Sections 4.02, 4.03 and 4.05 of the Subordinated Indenture to apply such sums to the redemption and/or defeasance of outstanding Subordinated Revenue Bonds.

Section 6. The parties hereto agree that the Authority will not appoint a Remarketing Agent pursuant to Section 2.12(b) of the Subordinated Indenture without the prior written consent of Diageo, which consent shall not be unreasonably withheld or delayed. The parties hereto further agree that the Authority will not appoint a Credit Provider for any purposes under the Subordinated Indenture without the prior written consent of Diageo, which consent shall not be unreasonably withheld or delayed.

Section 7. The Authority agrees that it will consult with Diageo and furnish copies with respect to each directive to the Trustee in Article V of the Subordinated Indenture and the Trustee agrees to deliver copies of all notices delivered to the Authority upon any transfers made under Article V of the Subordinated Indenture.

Section 8. The Trustee agrees to furnish copies of all reports prepared pursuant to Sections 5.04 (c) and 5.17 of the Subordinated Indenture to Diageo.

Section 9. For the limited purposes of directing the investments of funds held in the Funds under the Subordinated Indenture pursuant to Sections 5.02, 5.07, 5.08, 5.19 and 5.20 thereof, and any Senior Lien Capitalized Interest Subaccount and Second Lien Capitalized Interest Subaccount created pursuant to Section 5.01, and the specific Subaccounts therein created with respect to any Series of Subordinated Revenue Bonds issued under the Subordinated Indenture, the parties hereto agree that Diageo shall be authorized to consult with the Authority in directing the Trustee as to such investments; provided, however, such investments shall only be invested in the Permitted Investments pursuant to the Subordinated Indenture. The Authority further agrees to cause the Trustee to send to Diageo directly copies of all trust statements with respect to such funds and accounts on a monthly basis.

Section 10. The Authority agrees to furnish copies of all reports delivered to the Trustee and the Municipal Securities Rulemaking Board pursuant to Section 6.09 of the Subordinated Indenture to Diageo.

Section 11. The parties hereto agree that the Authority will not appoint a successor Trustee pursuant to Section 8.03 of the Subordinated Indenture without the prior written consent of Diageo, which consent shall not be unreasonably withheld or delayed.

Section 12. Without limiting the obligations of the Government pursuant to Section 1.2 of the Diageo Agreement, the parties hereto agree that no Supplemental Subordinated Indenture shall be entered into by and between the Authority and the Trustee pursuant to Section 9.01, 9.02, 9.03 and 9.04 of the Subordinated Indenture, nor shall any supplement or amendment of the Loan Agreement pursuant to Section 11.09 of the Loan Agreement be entered into by and between the Government and the Authority, without, in each

case, the prior written consent of Diageo, which consent shall not be unreasonably withheld, conditioned or delayed.

Section 13. The parties hereto agree that:

(a) The Calculation Agent shall be an independent certified public accounting firm appointed by the Government, with the consent of Diageo, pursuant to Section 3(b) of the Diageo Special Escrow Agreement, for the purpose of performing the necessary calculations required pursuant to the Diageo Special Escrow Agreement and the Subordinated Indenture, all in accordance with the Diageo Agreement, which appointment will be made on or before the first anticipated Diageo Matching Fund Revenues are due.

(b) The Independent Verification Analyst shall be Global Insight Inc. Any successor Independent Verification Analyst shall be a firm appointed by the Government, with the consent of Diageo, which consent shall not be unreasonably withheld or delayed, for the purpose of providing the necessary certificates required pursuant to Sections 2.05 and 2.06 of the Subordinated Indenture in connection with the issuance of Additional Senior Lien Bonds or Second Lien Bonds.

(c) The Calculation Agent shall be required to perform the calculations in the manner prescribed in the Calculation Agreement, a form of which is attached as Exhibit A to the Diageo Special Escrow Agreement and in accordance with the Diageo Agreement.

(d) No removal or replacement of the Calculation Agent by the Government will occur without the prior written consent of Diageo, such consent not to be unreasonably withheld, conditioned or delayed. The Government further agrees to remove the Calculation Agent for cause upon the reasonable request of Diageo.

(e) In the event of any dispute as to the calculations certified to by the Calculation Agent for purposes of the Senior Special Escrow Agreement, Diageo Special Escrow Agreement and the Subordinated Indenture, the provisions of Section 10.3 of the Diageo Agreement shall govern.

Section 14. The parties hereto agree that copies of all notices delivered under the Subordinated Indenture, the Loan Agreement, the Diageo Special Escrow Agreement and any Subordinated Supplemental Indenture hereof shall be furnished by the party delivering any such notice to Diageo at the addresses provided in Section 20 hereof or if received by a party hereto from an entity not party to this Agreement with respect to the provisions of this Agreement, such party shall forward such notice to Diageo.

Section 15. Diageo does hereby represent and warrant as follows:

Diageo is a corporation duly organized, validly existing, and in good standing under the laws of the United States Virgin Islands, has the power to enter into and perform the obligations set forth in this Agreement and to own its property and assets, has duly authorized the execution and delivery of this Agreement by proper action and this Agreement, the authorization, execution, delivery and performance hereof, the performance of the agreements therein and herein contained nor the consummation of the transactions therein and herein contemplated will not violate any provision of law, any order of any court or agency of government or any agreement, indenture or other instrument to which Diageo is a party or by which it or its property is subject to or bound, or be in conflict with or result in a breach of or constitute (with due notice and/or lapse of time) a default under any indenture, agreement or other instrument or any provision of its certificate of incorporation or by-laws, or any other requirement of law. This Agreement constitutes the legal, valid and binding obligations of Diageo enforceable against Diageo in accordance with its terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or other laws affecting creditors' rights generally and subject to general rules of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

Section 16. Diageo agrees that it shall:

(i) so long as the 2009 Series A Bond Anticipation Notes shall remain outstanding, promptly provide the Purchaser with (A) copies of any notices of any Material Default under the Diageo Agreement issued or received by Diageo; (B) written notice of the filing or commencement of any action, suit or proceeding or pending litigation which could result in a Material Default under the Diageo Agreement or have a material impact on Diageo or any of

its assets; and (C) in connection with the delivery of written notice of the voluntary or involuntary liquidation, dissolution, merger, consolidation, sale or other disposition of all or substantially all the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceedings affecting Diageo or any or all of the assets of Diageo. Any of the foregoing notices shall be sent to the Purchaser at the following address: 383 Park Avenue, New York, New York 10179;

(ii) it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by any Tax-Exempt Subordinated Revenue Bonds, under Section 103 of the Code (as defined below) and, in implementation of this covenant, agrees to comply with the provisions of the Arbitrage and Use of Proceeds Certificate to be executed on the date of issuance of any Tax-Exempt Subordinated Revenue Bonds. Further, Diageo will not directly or indirectly use or permit the use of any proceeds of any Tax-Exempt Subordinated Revenue Bonds or take or omit to take any action that would cause any Tax-Exempt Subordinated Revenue Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended from time to time (the “Code”) or private activity bonds with the meaning of Section 141 of the Code and will, to the extent necessary comply with all requirements of Section 148 of the Code and Section 141 of the Code to the extent applicable to any Tax-Exempt Subordinated Revenue Bonds;

(iii) so long as the 2009 Series A Bond Anticipation Notes shall remain outstanding, it shall permit the Purchaser to inspect the Facilities upon reasonable advance notice at reasonable hours; and

(iv) It shall agree to include as a cost of issuance, the structuring fee of the Purchaser, at the time of issuance of the first Series of Subordinated Revenue Bonds.

(v) it shall not permit the use of grant moneys received from the Government to be used in a manner inconsistent with the requirements for Tax-Exempt Subordinated Revenue Bonds set forth in the Loan Agreement and the Subordinated Indenture;

(vi) so long as the 2009 Series A Bond Anticipation Notes shall remain outstanding, it shall not change the general character of the business engaged by it as of the date hereof.

Section 17. If any section, paragraph, sentence, clause or provision of this Agreement shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, sentence, clause or provision shall not affect any of the remaining provisions of this Agreement.

Section 18. From time to time, the parties hereto, may cause to be executed an amendment or supplement to this Agreement curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provision contained in this Agreement or making such provisions in regard to matters or questions arising in this Agreement as may be necessary or desirable and as shall not materially adversely affect the interests of the holders of the Subordinated Revenue Bonds.

Section 19. This Agreement is intended to implement, but not amend, the provisions of the Diageo Agreement and, in the case of a conflict between the terms of the Diageo Agreement and this Agreement, the terms of the Diageo Agreement shall control.

Section 20. All communications, directions, requests or other instruments authorized or required hereunder to be given to the Government, the Authority, Diageo or the Trustee shall be deemed to have been sufficiently given for all purposes hereof if and when sent by telecopier, registered mail, return receipt requested to:

Government:

Governor
Government House
21-22 Kongens Gade
St. Thomas, Virgin Islands 00802

With a copy to:

Commissioner
V.I. Department of Property & Procurement
Bldg. 1, Subbase –
3rd Floor
St. Thomas , VI 00802

Public Finance Authority
24 Honduras, 2nd Floor
Frenchtown
U.S. Virgin Islands 00802
Telephone: 340-714-1635
Telefax: 340-714-1636
Attention: Director of Finance and
Administration

Authority:

Director of Finance
and Administration
32 & 33 Kongens Gade, Government Hill
Charlotte Amalie St. Thomas
U.S. Virgin Islands 00802

and

Commissioner of Finance
76 Kronprindsen Gade
Charlotte Amalie, St. Thomas
U.S. Virgin Islands 00802

With a copy to:

Director, Office of Management and Budget
41 Norre Gade
Emancipation Garden Station
2nd Floor
Charlotte Amalie, St. Thomas
U.S. Virgin Islands 00804

Diageo:

Diageo USVI Inc.
c/o G. Hunter Logan, Jr, Esq.
Nichols Newman Logan & Grey, P.C.
1131 King Street
Christiansted, St. Croix
U. S. Virgin Islands 00820

With copies to: Diageo plc
8 Henrietta Place
London, United Kingdom
W1G 0NB
Telephone: +44 207-927-4902
Telefax:
Attention: General Counsel

With copies to: Diageo North America, Inc.
801 Main Avenue
Norwalk, CT 06815
Telephone:
Telefax:
Attention: General Counsel

With copies to: Diageo
Procurement Commodities & Raw Materials
24460 West 143rd Street
Plainfield, IL 60544
Telephone: 815-267-4545
Telefax: 815-267-4646
Attention: Rick Thielen

DLA Piper US LLP (US)
1200 Nineteenth Street, N.W.
Washington D.C. 20036-2412
Telephone: 202-861-3900
Telefax: 202-223-2085
Attention: John Merrigan

Trustee: The Bank of New York Mellon Trust
Company, N.A.
10161 Centurion Parkway
Jacksonville FL 32256
Telefax: 904-645-1997
Attn: Corporate Trust Department

Section 21. Except insofar as the duties, powers and authority of the Authority and the Government, and their respective officers and employees, are governed by the laws of the United States Virgin Islands, this Agreement shall be governed by the applicable laws of the State of New York.

Section 22. The parties hereby agree that solely for purposes of the limitations of liability and mutual releases contained in Section 9.1.2 of the Diageo Agreement, the Authority shall be deemed a “Party.”

Section 23. This Agreement may be executed in several counterparts, all or any of which shall be regarded, for all purposes, as one original, and shall constitute and be but one and the same instrument.

Section 24. In connection with its execution and performance hereunder, the Trustee is entitled to all rights, privileges, protections, immunities, benefits and indemnities provided to it under the Subordinated Indenture and the Loan Agreement.

[SIGNATURE PAGE FOLLOWS]

[SIGNATURE PAGE TO PROJECT IMPLEMENTATION AGREEMENT]

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by their duly authorized officers or elected officials and the Virgin Islands has caused its seal to be hereunder affixed and attested as of the date first above written.

**GOVERNMENT OF THE UNITED STATES
VIRGIN ISLANDS**

SEAL

Attest: _____
Name: Debra E. Gottlieb
Title: Director of the Office of
Management and Budget

By: _____
Name: Honorable John P. deJongh, Jr.
Title: Governor

**VIRGIN ISLANDS PUBLIC FINANCE
AUTHORITY**

By: _____
Name: Debra E. Gottlieb
Title: Secretary

By: _____
Name: Angel E. Dawson, Jr.
Title: Executive Director

DIAGEO USVI INC.

By: _____
Name: Gabriel Bisio
Title: Secretary

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee**

By: _____
Name: Linda Boenish
Title: Vice President

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APPENDIX D

GLOSSARY OF CERTAIN DEFINED TERMS

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APPENDIX D

GLOSSARY OF CERTAIN DEFINED TERMS

Certain terms used in the Subordinated Indenture, the Second Supplemental Subordinated Indenture, the Diageo Special Escrow Agreement and the Series 2009A Loan Agreement are defined below unless otherwise defined herein or the context clearly indicates otherwise. When and if such terms are used in this Official Statement they shall have the meanings set forth below. Any capitalized term used in this Official Statement regarding the Subordinated Indenture, the Supplemental Subordinated Indentures, the Special Escrow Agreement and the Loan Agreement and not defined herein shall have the meaning given such term by the Subordinated Indenture, the Supplemental Subordinated Indentures, the Special Escrow Agreement and the Loan Agreement.

“Accreted Value” means with respect to any Subordinated Bond that is a Subordinated Capital Appreciation Bond, for each authorized denomination, an amount equal to the principal amount of such Subordinated Capital Appreciation Bond (determined on the basis of the initial offering price for such denomination at maturity thereof) plus the amount of earnings which would be produced on the investment of such principal amount, assuming compounding (as set forth in the applicable Supplemental Subordinated Indenture) beginning on the dated date of such Subordinated Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce an amount equal to such denomination at maturity. As of any Valuation Date, the Accreted Value of any Subordinated Capital Appreciation Bond means the amount set forth for such date in the applicable Supplemental Subordinated Indenture authorizing such Subordinated Bond and as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, using for such calculation 30 day months and a 360 day year and (2) the difference between the Accreted Values for such Valuation Dates.

“Act” means, collectively, the Virgin Islands Revised Organic Act of 1954, as amended (48 U.S.C.A. §1574 et seq.) (West 1987), the laws of the Virgin Islands including Title 29, Chapter 15, of the Virgin Islands Code, 1988 V.I. Act No. 5365, 2008 V.I. Act No. 7012, and 2009 V.I. Act No. 7062, and other applicable law, as the same may be amended from time to time.

“Act of Bankruptcy” means (i) the entity under consideration shall have applied for or consented to the appointment of a custodian, receiver, trustee or liquidator of all or substantially all of its assets; (ii) a custodian shall have been appointed with or without consent of such entity; (iii) such entity has made a general assignment for the benefit of creditors, or has filed a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any insolvency law; (iv) such entity has filed an answer admitting the material allegations of a petition in any bankruptcy, reorganization or insolvency proceeding, or taken any action for the purpose of effecting any of the foregoing; (v) a petition in bankruptcy shall have been filed against such entity and shall not have been dismissed for a period of 60 consecutive days; (vi) an order for relief has been entered under the Bankruptcy Code with respect to such entity; (vii) an order, judgment or decree shall have been entered, without the application, approval or consent of such entity by any court of competent jurisdiction approving a petition seeking reorganization of such entity or appointing a receiver, trustee, custodian or liquidator of such entity or substantially all of its assets, and such order, judgment or

decree shall have continued unstayed and in effect for any period of 60 consecutive days; or (viii) such entity shall have suspended the transaction of its usual business.

“Additional Subordinated Revenue Bonds” means Subordinated Revenue Bonds other than the Initial Series of Subordinated Revenue Bonds.

“Adjusted Debt Service Requirement” means, for any period, as of any date of calculation, the aggregate Debt Service on Outstanding Senior Lien Bonds or Outstanding Second Lien Bonds, for such period taking into account the following adjustments:

(i) With respect to Subordinated Revenue Bonds that bear interest at a Variable Interest Rate, the aggregate Debt Service thereon is determined as if each such Bond bore interest at the Certified Interest Rate; provided, however, (1) if the Authority (A) enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, and (B) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Subordinated Revenue Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement, the interest rate on such Subordinated Revenue Bonds shall be determined as if such Subordinated Revenue Bonds bore interest at the fixed interest rate payable by the Authority under such Qualified Swap Agreement, and (2) if (A) Subordinated Revenue Bonds of a specific maturity within a Series bear interest at a Variable Interest Rate and Subordinated Revenue Bonds which bear interest at a Variable Interest Rate of another Series with the same maturity are issued in an equal principal amount to the first such Series of Subordinated Revenue Bonds of the same maturity and (B) the Variable Interest Rate of the first Series of such Subordinated Revenue Bonds varies inversely to the Variable Interest Rate of the second Series of such Subordinated Revenue Bonds of the same maturity so that the combined interest rate for the aggregate principal amount of such Subordinated Revenue Bonds of the same specific maturity for both such Series is determined by the Authority to result in a combined fixed interest rate, then so long as the same principal amount of each maturity of such Series of Subordinated Revenue Bonds remain Outstanding, the aggregate Debt Service thereon shall be determined as if all such Variable Rate Subordinated Revenue Bonds of such Series and maturity bore interest at the combined fixed interest rate so determined by the Authority with respect to such aggregate principal amount of such Subordinated Revenue Bonds.

(ii) With respect to Fixed Interest Rate Subordinated Revenue Bonds, if the Authority (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Subordinated Revenue Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement, the interest rate on such Subordinated Revenue Bonds is determined as if such Subordinated Revenue Bonds bore interest at the Certified Interest Rate on the notional amount of such Subordinated Revenue Bonds.

(iii) Except to the extent described in (iv) below, with respect to Subordinated Revenue Bonds secured by a Credit Facility, the aggregate Debt Service thereon shall be deemed to include all periodic Bond Related Costs and other payments to (including any payments required to reimburse) the related Credit Provider (including any Debt Service Reserve Account

Credit Provider), but shall not include any amounts payable as principal of and interest and premium with respect to any reimbursement obligation to such Credit Provider except and to the extent that such payments on such reimbursement obligation are required to be made to the Credit Provider in excess of any corresponding Debt Service with respect to such Subordinated Revenue Bonds during such period.

(iv) With respect to Optional Tender Subordinated Revenue Bonds, the aggregate Debt Service thereon shall not include any amounts payable to a Credit Provider pursuant to any reimbursement obligation arising as the result of the payment of any purchase price with respect to such Subordinated Revenue Bonds on a Purchase Date except to the extent that, and for any period during which, the Authority is obligated to reimburse the Credit Provider for payments made by such Credit Provider directly or indirectly in satisfaction of any obligation to purchase such Subordinated Revenue Bonds on any Purchase Date following the application of any proceeds of any remarketing of such Subordinated Revenue Bonds.

(v) The aggregate Debt Service for any period on any Subordinated Revenue Bonds shall not include (1) any interest which is payable from Capitalized Interest which is to be transferred to the Debt Service Reserve Accounts for payment of interest on such Subordinated Revenue Bonds or (2) the amount of Debt Service on Subordinated Revenue Bonds to be paid from amounts in a Debt Service Reserve Account at the time of such computation for the period in question, but only if any such amount described in (1) or (2) is available and is to be applied under the applicable Supplemental Subordinated Indenture to make interest payments on such Subordinated Revenue Bonds when due.

(vi) If the Authority enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay any amount in excess of the amount to be received by the Authority in connection therewith for the period for which any calculation of Adjusted Debt Service Requirements is to be made under the Subordinated Indenture, then, to the extent not taken into account in (i) and (ii) above, the net amount of such payments which may be required of the Authority (using the Certified Interest Rate or its equivalent for such purpose if such amount is subject to any variation and excluding any breakage fees or termination payments paid by the Authority) shall be included in Adjusted Debt Service Requirements.

For purposes of this definition of Adjusted Debt Service Requirements, the principal and interest portions of the Accreted Value of Subordinated Capital Appreciation Bonds and the Appreciated Value of any Subordinated Deferred Interest Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the calculation of accrued and unpaid and accruing interest or principal installments on the date on which or for the period during which such amounts become due and payable unless otherwise specified in the Supplemental Subordinated Indenture authorizing such Subordinated Capital Appreciation Bonds or Subordinated Deferred Interest Bonds.

“Aggregate Debt Service” for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to the Subordinated Revenue Bonds.

“Annual Administrative Fee” means the amount authorized to be transferred annually from the Senior Lien Expense Subaccount and the Second Lien Expense Subaccount to the Authority to pay the Authority’s expenses in accordance with the annual budget approved by the Board of the Authority.

“Annual Debt Service” means, as of any date of calculation with respect to a specified Bond Year, Debt Service plus any premium, if any, payable for the Subordinated Revenue Bonds in the respective Bond Year.

“Appreciated Value” means with respect to any Subordinated Bond that is a Subordinated Deferred Interest Bond until the Interest Commencement Date thereon, for each authorized denomination, an amount equal to the principal amount of such Subordinated Deferred Interest Bond (determined on the basis of the initial offering price for such denomination at the Interest Commencement Date thereof) plus the amount, of earnings which would be produced on the investment of such principal amount, assuming compounding (as set forth in the applicable Supplemental Subordinated Indenture) beginning on the dated date of such Subordinated Deferred Interest Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce an amount equal to such denomination at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Subordinated Bond that is a Subordinated Deferred Interest Bond means the amount set forth for such date in the Supplemental Subordinated Indenture authorizing such Subordinated Deferred Interest Bond and as of any date other than a Valuation Date accruing for that period or due and payable on that date, the sum of (i) the Appreciated Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

“Authority” means the Virgin Islands Public Finance Authority, a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands, or, if said Authority shall be abolished, any authority, board, body or officer succeeding to the principal functions thereof.

“Authorized Denominations” shall mean, unless otherwise provided in a Supplemental Subordinated Indenture, (y) \$100,000 or any integral multiple of \$5,000 in excess thereof or (z) \$5,000 or any integral multiple thereof, in the event a Series of Subordinated Revenue Bonds are determined to be an investment grade credit by at least one Rating Agency.

“Authorized Officer” means the Executive Director or Chairman of the Authority or any other person authorized by the Authority to perform an act or sign a document on behalf of the Authority for purposes of the Subordinated Indenture or a Supplemental Subordinated Indenture as set forth therein or in a certificate of the Authority which has been delivered to the Trustee.

“Bankruptcy Code” means Title 11 of the United States Code.

“Board” means the Board of Directors of the Authority.

“Bond Counsel” means an attorney or firm of attorneys with nationally recognized expertise in matters relating to the issuance of obligations by states and local governments and political subdivisions thereof.

“Bondowners” shall mean all Owners of Subordinated Revenue Bonds.

“Bond Register” means the register maintained by the Bond Registrar pursuant to the Subordinated Indenture.

“Bond Registrar” means the Trustee, any successor trustee or bond Registrar appointed as Bond Registrar pursuant to the Subordinated Indenture.

“Bond Related Costs” means (i) all costs, fees and expenses of the Authority incurred or reasonably related to any Liquidity Facility, Credit Facility, any remarketing or other secondary market transactions and any Qualified Swap Agreement (whether requiring the Authority to pay fixed or variable amounts and excluding breakage fees on or termination payments under such Qualified Swap Agreements) that the Authority has determined was entered into for the purposes of providing substitute interest payments for a particular Series or maturity of Subordinated Revenue Bonds, (ii) initial and acceptance fees of any Diageo Fiduciary together with any fees of Bond Counsel, attorneys, feasibility consultants, engineers, financial advisors, Remarketing Agents, rebate consultants, accountants, underwriters and other advisors retained by the Authority in connection with a Series of Subordinated Revenue Bonds, and (iii) any other fees, charges and expenses that may be lawfully incurred by the Authority relating to Subordinated Revenue Bonds, including, without limitation, any obligation of the Authority to a Credit Provider for a Series of Subordinated Revenue Bonds to repay or reimburse any amounts paid by such Credit Provider due to payment under such Credit Facility and any interest on such repayment obligation.

“Bond Reserve Account” means the Senior Lien Debt Service Reserve Account and the Second Lien Debt Service Reserve.

“Bond Resolution” means Resolution No. 08-010, adopted by the Authority on October 31, 2008.

“Bond Service Charges” means for any applicable time period or date, principal of and premium, if any, and interest payments due and the fees, expenses and costs of the Trustee, Bond Registrar and Paying Agent, if any, on any of the Subordinated Revenue Bonds accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included together with any amount required to be paid for the replenishment of any Bond Reserve Account.

“Bond Year” means for each Series of Subordinated Revenue Bonds a period of twelve (12) consecutive months beginning on October 1 in any calendar year and ending on September 30 of the succeeding calendar year; provided that for purposes of Section 148 of the Code the Authority may elect a different Bond Year for any Series of Subordinated Revenue Bonds.

“Business Day” means any day that is not a Saturday, Sunday or legal holiday in the United States Virgin Islands or a day on which the Trustee, the Diageo Special Escrow Agent or banking institutions organized under the laws of the United States Virgin Islands are legally authorized to close.

“Calculation Agent” shall have the meaning provided for such term in the Diageo Special Escrow Agreement.

“Capitalized Interest” means that portion of the proceeds of any Series of Subordinated Revenue Bonds together with any available earnings thereon that are intended to be used to pay interest due or to become due on any Subordinated Revenue Bonds.

“Certified Interest Rate” means a rate estimated and certified by the financial advisor to the Authority as the rate that would be borne by a Variable Rate Subordinated Bond if on the date of such certification such Variable Rate Subordinated Bond was issued as a Diageo Subordinate Bond bearing interest at a fixed rate to its stated maturity.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a Code section in the Subordinated Indenture shall be deemed to include the Treasury Regulations proposed or in effect thereunder and applicable to the Subordinated Revenue Bonds.

“Communities Facilities Trust Account” shall mean the Communities Facilities Trust Account as referred to in the Diageo Agreement.

“Completion Bonds” shall have the meaning provided for such term in the Subordinated Indenture.

“Construction Account” means the account of that name established by the Subordinated Indenture.

“Corporate Trust Office” means the designated corporate trust office of the Trustee in which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which the Subordinated Indenture is dated, located at The Bank of New York Mellon Trust Company, N.A., 10161 Centurion Parkway, Jacksonville, Florida 32256, Attention: Corporate Trust Administration, Fax: 904-645-1997, except that, with respect to presentation of Subordinated Revenue Bonds for payment or registration of transfer and exchange and the location of the Bond Register, such term means the office or agency of the Bond Registrar in said city at which at any particular time its corporate agency business shall be conducted, which is, at the date as of which the Subordinated Indenture is dated, is a corporate trust office of the Trustee.

“Cost of Issuance” means the items of expense payable or reimbursable directly or indirectly by the Authority related to the sale and issuance of Subordinated Revenue Bonds which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee; initial fees and charges of Credit Providers or other parties (including specifically providers of bond insurance policies and surety policies) pursuant to remarketing, indexing or similar agreements; underwriters’ fees and discounts; legal fees and charges; auditing fees and expense; financial advisor’s fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Subordinated Revenue Bonds; and other administrative or other costs of issuing, carrying and repaying such Subordinated Revenue Bonds and investing the proceeds thereof.

“Cost of Issuance Account” means the account of that name established by the Subordinated Indenture.

“Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds (who may be counsel to the Authority) selected by the Authority and which opinion shall be reasonably satisfactory to the Trustee.

“Credit Agreement” means any reimbursement agreement or similar instrument between the Authority (and, if so drafted, the Trustee) and a Credit Provider with respect to a Credit Facility.

“Credit Facility” means a letter of credit, surety bond, liquidity facility, insurance policy or comparable instrument furnished by a Credit Provider which is rated in one of the two highest Rating Categories by the Rating Agency rating the Subordinated Revenue Bonds with respect to all or a specific portion of one or more Series of Subordinated Revenue Bonds to secure (a) the payment of Debt Service (which may include the premium due on payment of a Subordinated Bond) on Subordinated Revenue Bonds of a specified Series, or a specific portion thereof, (b) the payment of the Purchase Price (which may include accrued interest to the date of purchase) of Subordinated Revenue Bonds of a specified Series, or a specific portion thereof, on the applicable purchase dates or tender dates, or (c) both the payment of Debt Service on a specified Series of Subordinated Revenue Bonds, or a specific portion thereof, and the payment of Purchase Price.

“Credit Provider” means the bank, insurance company, financial institution or other entity providing a Credit Facility or Liquidity Facility pursuant to a Credit Agreement.

“Debt Service” for any period means, as of any date of calculation and with respect to any Series of Subordinated Revenue Bonds then Outstanding, the Bond Service Charges on such Series. For purposes of this definition, unless provided to the contrary in an applicable Supplemental Subordinated Indenture authorizing the issuance of Subordinated Capital Appreciation Bonds and Subordinated Deferred Interest Bonds, the scheduled principal and interest portions of the Accreted Value of Subordinated Capital Appreciation Bonds and the Appreciated Value of Subordinated Deferred Interest Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the calculations of accrued and unpaid and accruing interest or principal payments in the year in which such payments are required to be made.

“Debt Service Account(s)” means the Senior Lien Debt Service Account or the Second Lien Debt Service Account.

“Debt Service Reserve Account” means the Senior Lien Debt Service Reserve Account or the Second Lien Debt Service Reserve Account established in the Subordinated Indenture, as applicable.

“Debt Service Reserve Accounts” means collectively the Senior Lien Debt Service Reserve Account and the Second Lien Debt Service Reserve Account established in the Subordinated Indenture.

“Debt Service Reserve Requirement” means, as of any date of calculation, the sum of the Debt Service Reserve Requirements applicable to Diageo Bonds then Outstanding. The Debt Service Reserve Requirement may be calculated individually for each Series of Subordinated Revenue Bonds or in the aggregate if more than one Series of Subordinated Revenue Bonds are issued and outstanding at the same time, and as set forth in the applicable Supplemental Subordinated Indenture.

“Defeasance Securities” means

(i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States and obligations fully and unconditionally guaranteed as to timely payment of principal and interest by, the United States. The obligations described in this paragraph are hereinafter called “*United States Government Obligations*”; and

(ii) pre-refunded municipal obligations meeting the following conditions:

- (1) the municipal obligations (A) are not subject to redemption prior to maturity or (2) the trustee has been given irrevocable instructions concerning their call and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
- (2) the municipal obligations are secured by cash or non-callable United States Government Obligations that may be applied only to interest, principal and premium payments of such municipal obligations;
- (3) the principal of and interest on the United States Government Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification Report”);
- (4) the cash and United States Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for the owners of the municipal obligations;
- (5) no substitution of a United States Government Obligations shall be permitted except with another United States Government Obligations and upon delivery of a new Verification Report; and
- (6) the United States Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

“Depository” or “DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Diageo” shall mean Diageo USVI Inc., a corporation duly organized and existing under the laws of the United States Virgin Islands and its affiliates.

“Diageo Agreement” shall mean the Agreement between Diageo and the Government, dated as of June 17, 2008, as ratified by Act No. 7012 of the Legislature of the Virgin Islands, as the same may be amended and supplemented in accordance with the terms thereof.

“Diageo Funds” means those funds and accounts specified in the Subordinated Indenture.

“Diageo Matching Fund Revenues” shall mean the amounts deposited with the Diageo Special Escrow Agent on behalf of the Government of the Virgin Islands pursuant to (i) Section 28(b) of the Revised Organic Act, 48 U.S.C. §§ 1574-1574c (West 1987), as amended, or any successor provisions thereto, and (ii) Section 6.1 of the Diageo Agreement and shall consist of (y) any proceeds and collections from any Matching Fund Loan Note deposited in the Diageo Pledged Revenue Account, including any investment earnings thereon, and (z) any proceeds which arise with respect to any disposition of the Diageo Trust Estate. Diageo Matching Fund Revenues shall not include (i) any proceeds and collections from the production of rum sold in the United States other than from the Diageo Facility, (ii) any amounts contributed to the Authority in respect of a project the application of which by the Authority as a Matching Fund Revenue under the Senior Indenture would be contrary to the stated purpose of such contribution, and (iii) interest received on any money or securities (other than in the Construction Fund and the Rebate Fund) held pursuant to the Senior Indenture.

“Diageo Pledged Revenue Account” shall mean the account of that name established by the Subordinated Indenture.

“Diageo Project” means the acquisition, design, construction and equipping of a fully operational, state-of-the-art facility, including any subsequent improvements, for the production and storage of rum, together with all related utilities and transportation-related improvements and facilities necessary and appurtenant thereto, to be located on St. Croix and described more particularly in the Loan Agreement and in the Diageo Agreement, to be financed with a grant from the Government derived from the proceeds of the Subordinated Revenue Bonds and other funds, if available.

“Diageo Special Escrow Agreement” means the Diageo Special Escrow Agreement by and between the Authority, the Diageo Special Escrow Agent and the Government dated as of the date the Initial Series of Subordinated Revenue Bonds are issued, as the same may be supplemented or amended from time to time.

“Diageo Special Escrow Agent” means The Bank of New York Mellon Trust Company, N.A., the special escrow agent under the Diageo Special Escrow Agreement, or any successor thereto.

“Diageo Special Escrow Fund” means the Special Escrow Fund established under the Diageo Special Escrow Agreement.

“Diageo Trust Estate” means the Diageo Matching Fund Revenues and the rights to receive the same, the tangible and intangible properties, rights and other assets described in the Granting Clauses of the Subordinated Indenture as from time to time supplemented, and (with respect to a specific Series of Subordinated Revenue Bonds or specific Subordinated Revenue Bonds within a Series) such funds, rights, properties and assets pledged to secure a Series of Subordinated Revenue Bonds or specific Subordinated Revenue Bonds within a Series pursuant to a Supplemental Subordinated Indenture.

“Fiduciary” or “Fiduciaries” means any bank or other organization acting in a fiduciary capacity with respect to any Subordinated Revenue Bonds whether as Trustee, Paying Agent, Bond Registrar, tender agent, escrow agent or any or all of them, as may be appropriate.

“First Supplemental Subordinated Indenture” shall mean the First Supplemental Subordinated Indenture of Trust, dated as of June 1, 2009, between the Authority and the Trustee, supplemental to and amendatory of the Subordinated Indenture of Trust.

“Fiscal Year” means the Authority’s fiscal year, which is presently October 1 to the following September 30.

“Fitch” means Fitch Ratings, or any successor thereof which qualifies as a Rating Agency under the Subordinated Indenture.

“Fixed Interest Rate Bond” means (i) a Subordinated Bond, the interest rate on which is established (with no right to vary) at the time of calculation at a single numerical rate for the remaining term of such Bond, or (ii) all of those Subordinated Revenue Bonds of a specific maturity described in clauses (2)(A) and (B) of paragraph (i) of the definition of Adjusted Debt Service Requirement in the Subordinated Indenture.

“Funds” shall mean those funds and accounts specified in the Subordinated Indenture.

“Government” shall mean the Government of the United States Virgin Islands.

“Government Account” shall mean the Government Account as described in the Diageo Agreement.

“Independent Counsel” means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America, the United States Virgin Islands or the District of Columbia and not an employee on a full-time basis of any of the Authority, the Government or Diageo (but who or which may be regularly retained by any one or more of them).

“Independent Verification Analyst” means a firm retained by the Authority to prepare the certificates required by the Subordinated Indenture in connection with the issuance of Additional Senior Lien Bonds or Second Lien Bonds.

“Initial Series of Subordinated Revenue Bonds” means the Series 2009A Subordinated Revenue Bonds.

“Interest Commencement Date” means, with respect to any particular Subordinated Deferred Interest Bonds, the date specified in the applicable Supplemental Subordinated Indenture authorizing such Subordinated Deferred Interest Bonds (which date must be prior to the maturity date for such Subordinated Deferred Interest Bonds), after which interest accruing on such Subordinated Deferred Interest Bonds shall be payable with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

“Interest Payment Date” means each date specified in a Supplemental Subordinated Indenture as a date for the payment of interest to Owners of Subordinated Revenue Bonds of a specific Series.

“Interest Payment Period” with respect to any Subordinated Bond or Series of Subordinated Revenue Bonds, means, if prior to the first Interest Payment Date, the period from

but not including the date specified in each Supplemental Subordinated Indenture as the date for commencement of accrual of interest for such Bond or Series and after the first regularly scheduled Interest Payment Date means the period from but not including a regularly scheduled Interest Payment Date, in each case to and including the next regularly scheduled Interest Payment Date, provided that any Supplemental Subordinated Indenture may adjust this definition with respect to any Subordinated Bond or Series of Subordinated Revenue Bonds authorized to be issued thereunder in order to provide for the proper computation of or the timely transfer of amounts payable with respect to interest borne by such Subordinated Bond or Series of Subordinated Revenue Bonds on any Interest Payment Date.

“Issue Date” means, for the Subordinated Revenue Bonds of a particular Series, the date on which the Subordinated Revenue Bonds of such Series are delivered against payment therefor.

“Letter of Representation” means the Letter of Representation from the Authority to the Depository in substantially the form set forth in Appendix A of the Subordinated Indenture, or in such other form as may be acceptable to the Authority and the Depository.

“Liquidity Facility” means any agreement with a Credit Provider under or pursuant to which it agrees to purchase Optional Tender Subordinated Revenue Bonds provided that the debt obligations of such Credit Provider are rated in one of the two highest Rating Categories by S&P, Moody’s or Fitch.

“Loan Agreement” means a loan agreement by and among the Authority, the Trustee and the Government, as the same may from time to time be amended or supplemented in accordance with the terms thereof.

“Mandatory Sinking Fund Requirements” means the principal amount of Term Subordinated Revenue Bonds which are required to be redeemed by mandatory sinking fund redemption, in the principal amounts at the prices and on the dates as set forth in the applicable Supplemental Subordinated Indenture.

“Mandatory Tender Date” means a date on which a Series of Subordinated Revenue Bonds, or specific Subordinated Revenue Bonds included in such Series, are required to be purchased by, or on behalf of, the Authority as provided in the Subordinated Indenture or in the Supplemental Subordinated Indenture authorizing such Series of Subordinated Revenue Bonds.

“Matching Fund Loan Note” means, with respect to the Subordinated Revenue Bonds or a Series of Additional Subordinated Revenue Bonds issued by the Authority for the benefit of the Government, each note signed by the Government and delivered to the Authority, and, collectively all such Matching Fund Loan Note.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating, agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

“Officer’s Certificate” means a certificate signed by an Authorized Officer.

“Optional Tender Subordinated Revenue Bonds” means any Subordinated Revenue Bonds which by their terms may be tendered by and at the option of, or required to be tendered by, the Owner thereof for payment or purchase by the Authority or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof, provided, however, a Supplemental Subordinated Indenture may expressly provide that specific Subordinated Revenue Bonds are not “Optional Tender Subordinated Revenue Bonds” if, in the reasonable judgment of the Authority, the tender requirements of such Subordinated Revenue Bonds are not of the character intended to be included within this definition.

“Outstanding Subordinated Revenue Bonds,” “Subordinated Revenue Bonds Outstanding” and “Subordinated Revenue Bonds then Outstanding” means as of the date of determination, all Subordinated Revenue Bonds theretofore issued and delivered under the Subordinated Indenture as from time to time supplemented except:

(i) Subordinated Revenue Bonds theretofore canceled by the Trustee or Paying Agent or delivered to the Trustee or Paying Agent canceled or for cancellation;

(ii) for which payment or redemption moneys or securities (as provided in the Subordinated Indenture) shall have been theretofore deposited with the Trustee or Paying Agent in trust for the owners of such Subordinated Revenue Bonds; provided, however, that if such Subordinated Revenue Bonds are to be redeemed, notice of such redemption shall have been duly given pursuant to the Subordinated Indenture or irrevocable action shall have been taken to call such Subordinated Revenue Bonds for redemption at a stated redemption date;

(iii) Subordinated Revenue Bonds in exchange for or in lieu of which other Subordinated Revenue Bonds shall have been issued and delivered pursuant to the Subordinated Indenture; and

(iv) Optional Tender Subordinated Revenue Bonds deemed tendered in accordance with the provisions of the Supplemental Subordinated Indenture authorizing such Subordinated Revenue Bonds on the applicable tender, adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payments as provided therein (but not if held for reoffering).

In determining requisite percentages of the Owners of aggregate principal amount of Subordinated Revenue Bonds Outstanding for the purposes of direction, consent, approval or waiver under the terms and provisions of the Subordinated Indenture and any Supplemental Subordinated Indenture: (1) the aggregate “principal amount” of any Subordinated Revenue Bonds that are Subordinated Capital Appreciation Bonds shall be determined by their Accreted Value as of the date of such determination, and (2) the aggregate “principal amount” of any Subordinated Revenue Bonds that are Subordinated Deferred Interest Bonds shall be determined by their Appreciated Value as of the date of such determination and provided, however, that in determining whether the Owners of the requisite principal amount of Outstanding Subordinated Revenue Bonds have given any request, demand, authorization, direction, notice, consent or waiver under the Subordinated Indenture, Subordinated Revenue Bonds owned by the Authority shall be disregarded and deemed not to be Outstanding Subordinated Revenue Bonds, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Subordinated Revenue Bonds which the Trustee knows to be so owned shall be disregarded.

Each Supplemental Subordinated Indenture may further specify the conditions under which a Credit Provider will be deemed the Owner of Outstanding Subordinated Revenue Bonds for purposes of consents to the Subordinated Indenture.

“Owner” or “Bondowner,” or any similar term, means any Person who shall be the registered owner of any Subordinated Bond or Bonds.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Subordinated Revenue Bonds as securities depository.

“Paying Agent” means any commercial bank or trust company organized under the laws of the United States Virgin Islands, any state of the United States, the District of Columbia or the United States of America, or any national banking association designated as Paying Agent for the Subordinated Revenue Bonds, and its successor or successors subsequently appointed in the manner provided in the Subordinated Indenture or a Supplemental Subordinated Indenture.

“Payment Date” means, as to the Subordinated Revenue Bonds, each date upon which a payment of Debt Service is due thereunder.

“Permitted Investments” means any of the following securities, if and to the extent the same are at the time legal for the investment of funds held under the Subordinated Indenture:

(i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States and obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States;

(ii) (a) direct general obligation of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated in one of the two highest Rating categories for S&P and Moody’s, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated, (b) direct general short-term obligations of any state, subdivision or agency thereof described in (a) and rated in one of the two highest Rating Categories for S&P and Moody’s, or (c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above which are rated in one of the two highest Rating Categories for S&P and Moody’s;

(iii) Defeasance Securities described in clause (ii) of the definition thereof rated in one of the two highest Rating Categories for S&P and Moody’s;

(iv) obligations of the Government of the United States Virgin Islands, or obligations guaranteed as to both principal and interest, by the Government of the United States Virgin Islands rated in one of the two highest Rating Categories for S&P and Moody’s;

(v) (a) repurchase agreements with banks, savings and loan associations or trust companies organized under the laws of the United States Virgin Islands, the United States, or any state, territory, possession or commonwealth of the United States,

provided, however, that any such bank, savings and loan association or trust company shall have a combined capital and surplus at least equal to \$200,000,000 or (b) investment agreements, guaranteed investment contracts or similar funding agreements issued by insurance companies or other financial institutions; and, further provided in the case of investments with providers described in either clause (a) or (b) that (1) such agreements are fully secured by obligations set forth in (i), or (vi) of this paragraph; (2) such collateral is not subject to liens or claims of third parties; (3) such collateral has a market value at least equal to (102%) of the amount invested when the collateral type is that described in (i) and 104% of the amount invested when the collateral is that described in (vi); (3) the Trustee or a third party as agent for the Trustee agent has possession of the collateral or the collateral has been transferred to the custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market; (4) the collateral shall be marked to market on a daily basis and the provider or custodian shall send monthly reports to the Trustee setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the custodian holding the collateral; (5) the Trustee has a valid security interest in such collateral; the repurchase agreement shall state, and an opinion of counsel shall be rendered at the time such collateral is delivered, that the custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof; (6) such agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below one of the two highest Rating Categories for S&P and Moody's, as appropriate, the provider must notify the Trustee within five (5) days of receipt of such notice and, within ten (10) days of receipt of such notice, the provider shall either provide a written guarantee acceptable to the Trustee or assign the agreement to another provider meeting the requirements of the Subordinated Indenture. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the Trustee, repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the Trustee; (7) such agreement shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments; and (8) the long term debt of such bank is rated in one of the two highest Rating Categories as designated by S&P and Moody's at the time of the investment;

(vi) the listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States:

(a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; and

(d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

provided, in each case, that at the time of the investment such agency or its obligations are rated and the agency receives, or its obligations receive, ratings at the time of purchase in one of the two highest Rating Categories for S&P and Moody's;

(vii) U.S. dollar denominated bankers' acceptances with domestic commercial banks which have a rating on their short-term obligations on the date of purchase in one of the two highest Rating Categories for S&P and Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(viii) unsecured certificates of deposit with domestic commercial banks which have a rating on their short-term obligations on the date of purchase in one of the two highest Rating Categories for S&P and Moody's and maturing no more than 360 days after the date of purchase; and

(ix) investments in a money market fund rated in one of the two highest Rating Categories for S&P and Moody's, including money market funds sponsored by the Trustee; and

(x) commercial paper issued by U.S. corporations which is rated at the time of purchase in one of the two highest Rating Categories for S&P and Moody's and which matures not more than 270 days after the date of purchase.

Any such Permitted Investment may be purchased or sold by, from or through the Authority or the Trustee. The Authority will not direct the Trustee to hold investments described in (v), unless arrangements satisfactory to the Trustee are in place to verify and monitor compliance with such provisions.

"Person" means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof, or any other legal entity or groups of legal entities.

"Pledge Agreement" means a Pledge Agreement entered into with respect to a specific Series of Subordinated Revenue Bonds or a specific Subordinated Bond within a Series of Variable Rate Subordinated Revenue Bonds and related to the Credit Facility for such Subordinated Revenue Bonds.

"Principal Installment" means, as of any date of calculation and with respect to the Subordinated Revenue Bonds, so long as any Subordinated Revenue Bonds thereof are Outstanding, (i) the principal amount of Subordinated Revenue Bonds due on a certain future date, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for the Subordinated Revenue Bonds.

"Principal Payment Date" means any date on which a Principal Installment is scheduled to become due on Subordinated Revenue Bonds whether by scheduled maturity or Mandatory Sinking Fund Requirements or otherwise.

“Proportionate Basis” means, when used with respect to the redemption of Subordinated Revenue Bonds of a specific Series, that the aggregate principal amount of such Subordinated Revenue Bonds of each maturity of such Series to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the principal amount of Subordinated Revenue Bonds of that Series to be redeemed bears to the principal amount of all Subordinated Revenue Bonds of that Series then Outstanding; provided that if the amount available for redemption of Subordinated Revenue Bonds of any maturity is insufficient to redeem a multiple of the minimum authorized denomination of such maturity, such amount shall be applied to the redemption of the highest possible integral multiple of the minimum authorized denomination of such maturity. For purposes of the foregoing, Term Subordinated Revenue Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Fund Requirements set forth in the applicable Supplemental Subordinated Indenture. Any Subordinated Revenue Bonds purchased with moneys which would otherwise be applied to redemption on a Proportionate Basis on the next succeeding Payment Date shall be taken into account in determining Proportionate Basis with respect to such redemption. When used with respect to the purchase of Subordinated Revenue Bonds, Proportionate Basis shall have the same meaning as set forth above, substituting “purchase” for “redemption,” and “purchased” for “redeemed.”

“Purchase Date” means the date on which any Outstanding Subordinated Revenue Bonds are purchased pursuant to the Subordinated Indenture or any applicable Supplemental Subordinated Indenture.

“Qualified Swap Agreement” means an agreement between the Authority and a Swap Provider (i) which agreement is either approved by, or following review of such agreement the rating upon all affected Subordinated Revenue Bonds is confirmed by, each Rating Agency then rating the Swap Provider, and (ii) under which the Authority agrees to pay the Swap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap Provider agrees to pay the Authority for a specific period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where the Swap Provider, or the Person who guarantees the obligation of the Swap Provider to make its payments to the Authority, has unsecured obligations rated, as of the date the swap agreement is entered into, in one of the two highest applicable Rating Categories by each Rating Agency then rating such Swap Provider or other Person who guarantees such obligation.

“Rating Agency” means Moody’s, S&P and Fitch or any successor or comparable Rating Agency as long as such Rating Agency shall maintain an outstanding rating on any Series of Subordinated Revenue Bonds.

“Rating Category” means one of the general long-term (or short-term, if so specifically provided) rating categories of Fitch, Moody’s and S&P, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“Rebate Account” means the Rebate Account established in and maintained pursuant to the Subordinated Indenture and the applicable Supplemental Subordinated Indenture.

“Rebate Amount Certificate” shall have the meaning set forth in the Second Supplemental Subordinated Indenture.

“Rebate Requirement” means the amount required to be paid to the United States Treasury pursuant to Section 148(f) of the Code.

“Record Date” means with respect to an Interest Payment Date for the Subordinated Revenue Bonds, unless otherwise provided by any Supplemental Subordinated Indenture, the fifteenth day (or if such day shall not be a Business Day, the preceding Business Day) next preceding such Interest Payment Date.

“Redemption Price” means with respect to any Subordinated Bond, as determined by the Authority, the principal amount of such bond plus the applicable premium, if any, payable upon redemption thereof pursuant to such bond, the Subordinated Indenture or the applicable Supplemental Subordinated Indenture.

“Related Agreements” or “Related Documents” means any Credit Facility, Credit Agreement or Pledge Agreement related to a Series of Subordinated Revenue Bonds or a specific portion thereof, including security agreements or instruments made before or after the Subordinated Indenture for the benefit and with the consent of the Trustee or a Credit Provider as creditor to secure payment of any Series of Subordinated Revenue Bonds or a specific portion thereof or any amount due to a Credit Provider; but excluding the Subordinated Indenture and all Supplemental Subordinated Indentures; provided, that the term “Related Agreements” or “Related Documents,” when used in relation to a specific Series of Subordinated Revenue Bonds or a specific portion thereof, shall include only such Related Agreements or Related Documents as have been entered into for such Series of Subordinated Revenue Bonds or a specific portion thereof, and shall not include documents, agreements or other items entered into only for the purposes of a different Series of Subordinated Revenue Bonds or a specific portion thereof.

“Remarketing Agreement” means the Remarketing Agreement for a Series of Subordinated Revenue Bonds or a specific portion thereof, including any amendments and supplements thereto, between the Remarketing Agent and the Authority.

“Remarketing Agent” means the firm appointed as Remarketing Agent for a specific Series of Optional Tender Subordinated Revenue Bonds.

"Responsible Officer" shall mean, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of the Subordinated Indenture.

“S&P” means Standard & Poor’s Ratings Group, a division of the McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

“Second Lien Bonds” means obligations of the Authority issued pursuant to any Supplemental Subordinated Indenture as Second Lien Bonds permitted by the Subordinated Indenture.

“Second Lien Capitalized Interest Subaccount” means the subaccount by that name in the Second Lien Debt Service Account established by the Subordinated Indenture and the applicable Supplemental Subordinated Indenture.

“Second Lien Credit Subaccount” means a subaccount by that name in the Second Lien Debt Service Account or Second Lien Debt Service Reserve Account, as applicable, established by the Subordinated Indenture.

“Second Lien Debt Service Account” means the fund by that name established by the Subordinated Indenture.

“Second Lien Debt Service Reserve Account” means the fund by that name established by the Subordinated Indenture.

“Second Lien Expense Subaccount” means the subaccount by that name established by the Subordinated Indenture.

“Second Lien Interest Subaccount” means the subaccount by that name in the Second Lien Debt Service Account established by the Subordinated Indenture and the applicable Supplemental Subordinated Indenture.

“Second Lien Principal Subaccount” means the subaccount by that name in the Second Lien Debt Service Account established by the Subordinated Indenture and the applicable Supplemental Subordinated Indenture.

“Second Lien Redemption Subaccount” means the subaccount by that name in the Second Lien Debt Service Account established by the Subordinated Indenture.

“Second Supplemental Subordinated Indenture” shall mean the Second Supplemental Subordinated Indenture of Trust, dated as of July 1, 2009, between the Authority and the Trustee, supplemental to and amendatory of the Subordinated Indenture of Trust.

“Senior Bond” or “Senior Bonds” shall mean any Matching Fund Revenue Bond or Bonds, as the case may be, authenticated and delivered under the Senior Indenture.

“Senior Bondholder” shall mean all holders of bonds of the Authority issued under the Senior Indenture and outstanding thereunder.

“Senior Indenture” shall mean the Indenture of Trust, Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Note), dated as of May 1, 1998, as amended and supplemented from time to time, by and between the Virgin Islands Public Finance Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee.

“Senior Lien Bonds” means obligations of the Authority issued pursuant to any Supplemental Subordinated Indenture as Senior Lien Bonds permitted by the Subordinated Indenture.

“Senior Lien Capitalized Interest Subaccount” means the subaccount by that name in the Senior Lien Debt Service Account established by the Subordinated Indenture and the applicable Supplemental Subordinated Indenture.

“Senior Lien Credit Subaccount” means a subaccount by that name in the Senior Lien Debt Service Account or Senior Lien Debt Service Reserve Account, as applicable, established by the Subordinated Indenture.

“Senior Lien Debt Service Account” means the account by that name established by the Subordinated Indenture.

“Senior Lien Debt Service Reserve Account” means the account by that name established by the Subordinated Indenture.

“Senior Lien Expense Subaccount” means the subaccount by that name established by the Subordinated Indenture.

“Senior Lien Redemption Subaccount” means the subaccount by that name in the Senior Lien Debt Service Account established by the Subordinated Indenture.

“Senior Trustee” shall mean The Bank of New York Mellon Trust Company, N.A., a national association with trust powers duly organized and existing under the laws of the United States, designated as trustee under the Senior Indenture, and its successor or successors subsequently appointed in the manner as provided in the Senior Indenture.

“Series” means all Subordinated Revenue Bonds, delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

“Series 2009A Arbitrage Rebate Account” shall mean the Series 2009A Arbitrage Rebate Account established in the Second Supplemental Subordinated Indenture.

“Series 2009A Bonds” shall mean the Authority’s Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project) authorized to be issued pursuant to the Second Supplemental Subordinated Indenture.

“Series 2009A Capitalized Interest Subaccount” shall mean the Series 2009A Senior Lien Capitalized Interest Subaccount.

“Series 2009A Construction Subaccount” shall mean the Series 2009A Project Subaccount.

“Series 2009A Cost of Issuance Subaccount” shall mean the Series 2009A Cost of Issuance Subaccount of the Cost of Issuance Account established in the First Supplemental Subordinated Indenture.

“Series 2009A Debt Service Reserve Requirement” shall mean an amount equal to the least of (a) \$20,623,468.75, which amount is calculated based on the maximum principal and interest due on the Series 2009A Bonds in the current or any future Fiscal Year, (b) 10 percent of the original stated principal amount of the 2009A Bonds (or 10 percent of the issue price of the Series 2009A Bonds if required by the Code) or (c) 125 percent of the average annual principal and interest due on the Series 2009A Bonds in the current and each future Fiscal Year, but in no event more than 10 percent of the original stated principal amount of the Series 2009A Bonds (or 10 percent of the issue price of the Series 2009A Bonds if required by the Code).

“Series 2009A Interest Subaccount” shall mean the Series 2009A Interest Subaccount established pursuant to the Second Supplemental Subordinated Indenture.

“Series 2009A Loan Agreement” means the Loan Agreement, dated as of June 1, 2009, by and among the Government, the Authority and the Trustee, entered into in connection with the issuance of the Series 2009A Senior Lien Bonds.

“Series 2009A Loan Note” means the Government’s 2009A Matching Fund Loan Note, executed and delivered to the Authority pursuant to the Series 2009A Loan Agreement.

“Series 2009A Principal Subaccount” shall mean the Series 2009A Principal Subaccount established pursuant to the Second Supplemental Subordinated Indenture.

“Series 2009A Project Subaccount” shall mean the Series 2009A Project Subaccount of the Construction Account established pursuant to the Second Supplemental Subordinated Indenture.

“Series 2009A Redemption Subaccount” shall mean the Series 2009A Redemption Subaccount established pursuant to the Second Supplemental Subordinated Indenture.

“Series 2009A Senior Lien Debt Service Reserve Subaccount” shall mean the Series 2009A Senior Lien Debt Service Reserve Subaccount of the Senior Lien Debt Service Reserve Account established in the Second Supplemental Subordinated Indenture.

“Series 2009A Senior Lien Expense Subaccount” shall mean the Series 2009A Senior Lien Expense Subaccount of the Senior Lien Expense Subaccount established in the Second Supplemental Subordinated Indenture.

“Sinking Fund Installment” means with respect to any Series of Subordinated Revenue Bonds, an amount so designated which is established pursuant to the Supplemental Subordinated Indenture authorizing such Series of Subordinated Revenue Bonds.

“SLGS” means United States Treasury Obligations, State and Local Government Series, as provided for in the United States Treasury Regulations 31 CFR 344.

“Special Record Date” means, if the Authority shall be in default in payment of principal or interest due on a Subordinated Bond, a special Record Date for the payment of such defaulted principal or interest established by notice mailed by the Trustee at the expense of and on behalf of the Authority; notice of such Special Record Date shall be mailed not less than 10 days preceding such Special Record Date, to the owner at the close of business on the fifth Business Day preceding the date of mailing.

“Subordinated Bond” or “Subordinated Revenue Bonds” means any Subordinated Bond or Subordinated Revenue Bonds, as the case may be, issued pursuant to the Subordinated Indenture or any Supplemental Subordinated Indenture, and may include notes, commercial paper, or other obligations and shall include Senior Lien Bonds and Second Lien Bonds.

“Subordinated Capital Appreciation Bonds” means any Subordinated Revenue Bonds as to which interest is payable only at the maturity or prior redemption thereof. For the

purposes of (i) receiving payment of the redemption price, if any, of a Subordinated Capital Appreciation Bond that is redeemed prior to maturity, and (ii) computing the principal amount of Subordinated Capital Appreciation Bonds held by the Owner thereof in giving any notice, consent, request, or demand pursuant to the applicable Supplemental Subordinated Indenture for any purpose whatsoever, the Accreted Value of a Subordinated Capital Appreciation Bond as of a specific date shall be deemed to be its principal amount as of such date.

“Subordinated Current Interest Bonds” mean all Subordinated Revenue Bonds which are not (a) Subordinated Capital Appreciation Bonds or (b) prior to the Interest Commencement Date, Subordinated Deferred Interest Bonds.

“Subordinated Deferred Interest Bonds” means any Subordinated Revenue Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the Supplemental Subordinated Indenture authorizing such Series.

“Subordinated Indenture” means the Subordinated Indenture of Trust between the Authority and the Trustee and, as to each Series of Subordinated Revenue Bonds, the Supplemental Subordinated Indenture pertaining thereto, as the Subordinated Indenture or any Supplemental Subordinated Indenture may from time to time be amended or supplemented in accordance with the terms of the Subordinated Indenture.

“Supplemental Subordinated Indenture” means any Subordinated Indenture amending or supplementing the Subordinated Indenture in accordance with the terms of the Subordinated Indenture.

“Surplus Account” means the Subordinated Surplus Account established in the Subordinated Indenture.

“Surplus Receipts Accounts” means the account as defined in the Diageo Agreement.

“Swap Provider” means the counterparty with whom the Authority enters into a Qualified Swap Agreement.

“Taxable Subordinated Revenue Bonds” means any Subordinated Revenue Bonds which are not Tax-Exempt Subordinated Revenue Bonds on the date of original issue thereof.

“Tax Covenants” means the covenants of the Authority expressed in or incorporated by reference in the Subordinated Indenture, or in the corresponding section of a Supplemental Subordinated Indenture providing for assurance of the preservation of the tax-exempt status of the interest on a Series of Tax-Exempt Subordinated Revenue Bonds.

“Tax-Exempt Subordinated Revenue Bonds” means Subordinated Revenue Bonds issued pursuant to the Subordinated Indenture for which the Authority receives, on the date of the closing therefor, an opinion of Bond Counsel to the effect that interest on such Subordinated Revenue Bonds is excluded from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Code.

“Tax Opinion” means, with respect to any action requiring such an opinion under the Subordinated Indenture, a Counsel’s Opinion to the effect that such action, of itself, will not

adversely affect the exclusion of interest on any Series of Tax-Exempt Subordinated Revenue Bonds from gross income for federal income tax purposes.

“Tax Regulatory Agreement” means that agreement between the Authority and the Government of the Virgin Islands dated as of the date the Initial Series of Subordinated Revenue Bonds are issued, as amended from time to time, relating to the requirements of Sections 148 and 103 of the Code for exemption of interest on the Tax-Exempt Subordinated Revenue Bonds from federal income tax.

“Term Subordinated Revenue Bonds” means Subordinated Revenue Bonds which are designated in a Supplemental Subordinated Indenture as subject to scheduled Mandatory Sinking Fund Requirements prior to maturity.

“Treasury Regulations” means all final, temporary or proposed Income Tax Regulations issued or amended with respect to the Code by the Treasury or Internal Revenue Service and applicable to a Series of Subordinated Revenue Bonds. Any reference to a section of the Treasury Regulations shall also refer to any successor provision to such section promulgated by the Internal Revenue Service pursuant to the Code and applicable to a Series of Tax-Exempt Subordinated Revenue Bonds.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association with trust powers duly organized and existing under the laws of the United States, designated as trustee under the Subordinated Indenture, and its successor or successors subsequently appointed in the manner provided in the Subordinated Indenture.

“Valuation Date” means, with respect to any Subordinated Revenue Bonds that are Subordinated Capital Appreciation Bonds or Subordinated Deferred Interest Bonds, the date or dates set forth as such in the Supplemental Subordinated Indenture authorizing such Subordinated Revenue Bonds on which specific Accreted Values or Appreciated Values, respectively, are assigned to such Subordinated Revenue Bonds.

“Variable Interest Rate” means a variable interest rate or rates to be borne by a Series of Subordinated Revenue Bonds or other obligations or by any Subordinated Bond within a Series of Subordinated Revenue Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Subordinated Indenture authorizing such Subordinated Revenue Bonds or Related Agreements approved thereby.

“Variable Rate Subordinated Revenue Bonds” means any Subordinated Bond that bears interest at a rate which is not established at the time of calculation at a single numerical rate for the remaining term of such bond.

“Written Order” means a written direction of the Authority to the Trustee signed by an Authorized Officer.

APPENDIX E

**SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATED INDENTURE AND THE
DIAGEO SPECIAL ESCROW AGREEMENT**

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATED INDENTURE

The following is a summary of certain provisions of the Subordinated Indenture. Such summary does not purport to be complete or definitive and reference is made to the Subordinated Indenture for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under **Appendix D – “Glossary of Certain Defined Terms”**.

Authorization of Bonds. The Subordinated Indenture authorizes Subordinated Revenue Bonds of the Authority, to be issued under the Subordinated Indenture and Supplemental Subordinated Indentures, and designated as “Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note - Diageo Project)”, “Second Lien Revenue Bonds (Virgin Islands Matching Fund Loan Note- Diageo Project) or “Subordinated Revenue and Refunding (Virgin Islands Matching Fund Loan Note),” as applicable. The aggregate principal amount of the Subordinated Revenue Bonds which may be executed, authenticated and delivered under the Subordinated Indenture and Supplemental Subordinated Indentures, is not limited except as is or may be provided in the Subordinated Indenture or the Act or as may be limited by law. The Subordinated Revenue Bonds shall be special limited obligations of the Authority payable solely from the sources pledged by the Subordinated Indenture, provided, however, that such payment and pledge shall be, and shall be expressed to be, subject and subordinate in all respects to the payment of the principal and Redemption Price of, and interest on, the Senior Bonds and the pledge of Matching Fund Revenues as security for the Senior Bonds pursuant to the Senior Indenture.

Pledge of Diageo Matching Fund Revenues. The Subordinated Revenue Bonds shall be special, limited obligations of the Authority payable as to principal or Redemption Price, if any, and interest thereon, in accordance with their terms and the terms and provisions of the Subordinated Indenture solely from the Diageo Matching Fund Revenues, and secured by a lien on and security interest in the Diageo Trust Estate, subject only to the provisions of the Subordinated Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Subordinated Indenture. The Authority has no taxing power and its debts are not debts of the United States Virgin Islands or any political subdivision of the United States Virgin Islands. No holder of the Subordinated Revenue Bonds shall have the right to compel any exercise of the taxing power of the United States Virgin Islands to pay the principal of or interest on the Subordinated Revenue Bonds.

Sinking Fund Redemption; Purchase. The Subordinated Revenue Bonds of any Series issued pursuant to the Subordinated Indenture and a Supplemental Subordinated Indenture may be subject to optional, mandatory or extraordinary redemption or prepayment on a scheduled or other basis, provided that the Subordinated Mandatory Sinking Fund Requirements of Subordinated Revenue Bonds of a particular Series and maturity shall be reduced, as provided in the Subordinated Indenture or in the applicable Supplemental Subordinated Indenture, if and to the extent the Subordinated Revenue Bonds of that Series and maturity have been or will be optionally or mandatorily redeemed, in whole or part, prior to or on the date scheduled for payment of the specified principal amount and at the redemption prices specified in the applicable Supplemental Subordinated Indenture. Redemption of the Subordinated Revenue Bonds may be in whole or in part subject to prepayment; provided that there shall be no reduction of the amount scheduled for redemption on a mandatory redemption date except to the extent Subordinated Revenue Bonds of the maturity to be redeemed have been optionally or mandatorily redeemed or

will be optionally or mandatorily redeemed on the scheduled redemption date and except that the Authority may, at its option, purchase Subordinated Revenue Bonds of the maturity to be redeemed and upon surrender of such purchased Subordinated Revenue Bonds to the Trustee and cancellation thereof apply the principal amount purchased and cancelled as a credit against the principal amount to be redeemed.

Additional Subordinated Revenue Bonds; Other Revenue Obligations. All of the Subordinated Revenue Bonds issued under a Supplemental Subordinated Indenture shall collectively be a charge and lien upon the Diageo Trust Estate as provided in the Subordinated Indenture and such charge and lien shall be prior to any other charge and lien upon the Diageo Trust Estate. Except as permitted by the Subordinated Indenture, no obligations payable from Diageo Matching Fund Revenues or secured by a lien on the Diageo Trust Estate (except as to any Credit Facility or Liquidity Facility which secures Subordinated Revenue Bonds or a specific Series of Subordinated Revenue Bonds) shall be issued.

So long as no Event of Default has occurred and is continuing, the Authority from time to time after the execution and delivery of the Subordinated Indenture may enter into a Supplemental Subordinated Indenture providing for the issuance of Additional Subordinated Revenue Bonds pursuant to the Subordinated Indenture. Such Additional Subordinated Revenue Bonds may be for any purpose for which Subordinated Revenue Bonds or other obligations may be issued under the Act or as otherwise permitted under laws of the Virgin Islands.

Any such Additional Subordinated Revenue Bonds may bear interest at any rate lawful at the time of the issuance thereof and may mature over any period of time not exceeding the maximum maturity permitted by law and may provide for such other payment terms and conditions as the Authority shall determine in a Supplemental Subordinated Indenture. It is understood and agreed that any Additional Subordinated Revenue Bonds shall be given a designation by year, alphabetical letter or other identifying language or symbol differentiating such Additional Subordinated Revenue Bonds from other Subordinated Revenue Bonds then Outstanding as provided in the Supplemental Subordinated Indenture authorizing the issuance thereof.

Conditions to the Issuance of Additional Second Lien Bonds. (a) Additional Second Lien Bonds payable from Diageo Matching Fund Revenues and secured by a lien on the Diageo Trust Estate on a junior and subordinate basis to the payment obligation to the Senior Lien Bonds may be issued on a parity basis with all Outstanding Second Lien Bonds if the Trustee shall receive:

(i) a certificate of the Authority that no Event of Default under the Subordinated Indenture has occurred and shall continue to exist immediately following the date of issuance of the Additional Second Lien Bonds to be issued;

(ii) a certificate of an Independent Verification Analyst stating (1)(A) the actual amount of Diageo Matching Fund Revenues received by the Government for its immediately preceding Fiscal Year, (B) the average amount of Diageo Matching Fund Revenues received by the Government for its immediately preceding two Fiscal Years prior to the issuance of such Additional Second Lien Bonds and (C) the average Diageo Matching Fund Revenues projected to be received by the Government in the next succeeding two Fiscal Years following issuance of such Second Lien Bonds; (2) the maximum annual Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Second Lien Bonds after giving effect to the issuance of the proposed Second Lien Bonds; and (3)(A) that the average

Available Diageo Matching Fund Revenues (as defined below) of the Government after payment of Debt Service on any Senior Lien Bonds then Outstanding (the “Available Diageo Matching Fund Revenues”) for the immediately preceding three Fiscal Years equaled or exceeded 150% of the amount of the maximum Adjusted Debt Service Requirement in the current or any subsequent Bond Year, (B) the average Available Diageo Matching Fund Revenues projected to be received by the Government for the next succeeding two Fiscal Years following the issuance of the Additional Second Lien Bonds is projected to equal or exceed 150% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on outstanding Second Lien Bonds and such Additional Second Lien Bonds and (C) the average Diageo Matching Fund Revenues projected to be received by the Government for the next succeeding two Fiscal Years following issuance of the Additional Second Lien Bonds is projected to equal or exceed 120% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Second Lien Bonds, such additional Second Lien Bonds and Outstanding Senior Lien Bonds; and

(b) For purposes of the certifications described in the Subordinated Indenture, there shall be excluded from the Adjusted Debt Service Requirements any amounts otherwise due or to become due on Outstanding Subordinated Revenue Bonds which are to be refunded and will be no longer Outstanding as a result of the issuance of such Additional Second Lien Bonds.

(c) Any Supplemental Subordinated Indenture which authorizes Additional Second Lien Bonds shall establish the Debt Service Reserve Requirement to be funded in connection with such Series of Additional Subordinated Revenue Bonds and may amend the Subordinated Indenture in order to provide for the funding, application and replenishment of any account within the Second Lien Debt Service Reserve Account in connection therewith, provided that no such amendment may adversely affect the Subordinated Revenue Bonds of any Series then Outstanding except such Series of Additional Second Lien Bonds.

(d) If the Additional Second Lien Bonds are subject to mandatory purchase or are to be purchased upon optional tender by the Owners thereof, any amounts required to be segregated or set aside by the Authority to fulfill its purchase obligation shall be deemed additional Adjusted Debt Service Requirements with respect to the related Series of Second Lien Bonds in the amounts and at the times such amounts are required to be so set aside.

(e) The conversion of Second Lien Bonds which are Variable Rate Subordinated Revenue Bonds to Fixed Interest Rate Subordinated Revenue Bonds shall not be treated as the issuance of Additional Second Lien Bonds subject to the other requirements of this heading unless the interest rate to be borne by such Second Lien Bonds from and after the date of conversion will exceed the Certified Interest Rate taken into account for the purposes of computing Adjusted Debt Service Requirements under the Subordinated Indenture.

(f) Prior to the issuance of any Series of Additional Second Lien Bonds under the provisions of this heading, and as a condition precedent thereto, the following documents and showings shall be executed and delivered:

(i) A Supplemental Subordinated Indenture, executed by the Authority and the Trustee, providing for the issuance of the Additional Second Lien Bonds and the terms and conditions thereof;

(ii) A Counsel’s Opinion to the effect that all conditions precedent to the delivery of such Additional Second Lien Bonds have been fulfilled and that the issuance thereof

will not cause the interest on any Series of Tax-Exempt Subordinated Revenue Bonds Outstanding to become includable in gross income for Federal income tax purposes;

(iii) A certificate of an Authorized Officer to the effect that the Loan Agreement and the Series 2009A Loan Note continue in full force and effect and that there is no Event of Default (as such term is defined in the Loan Agreement) nor any event which upon notice or lapse of time or both would become an Event of Default thereunder;

(iv) A certificate of each of the Government and Diageo to the effect that the Diageo Agreement continues in full force and effect and that there is no Material Default (as such term is defined in the Diageo Agreement) nor any event which upon notice or lapse of time or both would become a Material Default thereunder; and

(v) An Authority certificate setting forth information sufficient to satisfy the Trustee that the requirements of this heading have been fulfilled.

(g) Each Series of Additional Second Lien Bonds issued pursuant to this heading shall be equally and ratably secured under the Subordinated Indenture with the Second Lien Bonds and all other Series of Additional Second Lien Bonds, if any, issued pursuant to this heading, without preference, priority or distinction of any Second Lien Bond over any other Second Lien Bonds except as expressly provided in or permitted by the Subordinated Indenture.

Immobilization of Subordinated Revenue Bonds by DTC; Successor Depository; Replacement Subordinated Revenue Bonds. Notwithstanding any provision of the Subordinated Indenture to the contrary:

(a) The ownership of one or more fully registered Subordinated Revenue Bonds for each maturity of each Series of Subordinated Revenue Bonds shall be registered in the name of a Cede & Co., as nominee for The Depository Trust Company (“DTC”). Payments of interest on, principal of and any premium on such Series of Subordinated Revenue Bonds shall be made to the account of DTC on each Payment Date at the address indicated for DTC in the Subordinated Bond Register by transfer of immediately available funds. DTC maintains a book-entry system for recording ownership interests of its participants (the “Direct Participants”), and the ownership interests of a purchaser of a beneficial interest in the Subordinated Revenue Bonds (a “Beneficial Owner”) will be recorded through book entries on the records of the Direct Participants.

(b) With respect to Subordinated Revenue Bonds registered in the name of DTC, the Authority, the Trustee and any agent thereof shall have no responsibility or obligation to any Direct Participant or to any Beneficial Owner of such Subordinated Revenue Bonds. Without limiting the immediately preceding sentence, the Authority, the Trustee and any agent thereof shall have no responsibility or obligation with respect to (i) the accuracy of the records of a Depository, its nominee, or any Direct Participant with respect to any beneficial ownership interest in the Subordinated Revenue Bonds, (ii) the delivery to any Direct Participant, Beneficial Owner or other Person, other than the Depository, of any notice with respect to the Subordinated Revenue Bonds, including any notice of redemption, (iii) the payment to any Direct Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal or redemption price of, or any interest on, the Subordinated Revenue Bonds or (iv) any consent given or other action taken by DTC. The Authority, the Trustee and any agent thereof may treat DTC as, and deem the Depository to be, the absolute owner of each Bond for all purposes whatsoever including (but not limited to) (1) payment of the principal or redemption price of, and

interest on, each such Bond, (2) giving notices of purchase or redemption and other matters with respect to each such Bond, and (3) registering transfers with respect to such Subordinated Revenue Bonds. The Trustee shall pay the principal or redemption price of, and interest on, all Subordinated Revenue Bonds registered in the name of DTC or its nominee only to or upon the order of DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to such principal or redemption price, and interest, to the extent of the sum or sums so paid. No Person other than DTC shall receive a Subordinated Bond of a Series evidencing the obligation of the Authority to make payments of principal or redemption price, and interest on, the Subordinated Revenue Bonds of such Series registered in the name of a Depository to the Trustee. Upon receipt by the Trustee of a Written Order to the effect that DTC has determined to substitute a new nominee, and subject to the transfer provisions of the Subordinated Indenture, any references to the prior nominee contained in the Subordinated Indenture or in a Supplemental Subordinated Indenture shall refer to such new nominee.

(c) (i) DTC may determine to discontinue providing its services with respect to the Subordinated Revenue Bonds of a Series at any time by giving reasonable written notice to the Authority, the Trustee and any tender agent for a Series of Subordinated Revenue Bonds and discharging its responsibilities with respect thereto under applicable law.

(ii) The Authority, in its sole discretion and without the consent of any other Person, may terminate, upon provision of notice to the Trustee and any tender agent for a Series of Subordinated Revenue Bonds, the services of the DTC with respect to a Series of Subordinated Revenue Bonds if the Authority determines that the continuation of the system of book-entry-only transfers through DTC (or a successor securities depository) is not in the best interests of the Owners of the Subordinated Revenue Bonds of the Series or is burdensome to the Authority.

(d) Upon the termination of the services of DTC with respect to a Subordinated Bond pursuant to the Subordinated Indenture, or upon the termination of the services of DTC with respect to the Subordinated Revenue Bonds of a Series pursuant to the Subordinated Indenture, then the Authority in its sole discretion may select a new Depository or determine that the Subordinated Revenue Bonds of such Series shall no longer be restricted to being registered in the Subordinated Bond Register in the name of DTC or its nominee. If the Authority determines to discontinue the services of a Depository, the Authority shall issue and the Trustee shall transfer and exchange Subordinated Bond certificates for such Series as requested by DTC or Direct Participants of like principal amount, Series and maturity, in authorized denominations to the identifiable Beneficial Owners of the Subordinated Revenue Bonds in replacement of such Beneficial Owners' beneficial interests in the Subordinated Revenue Bonds.

(e) Notwithstanding any other provision of the Subordinated Indenture to the contrary, so long as any Subordinated Bond of a Series is registered in the name of DTC or its nominee, all payments with respect to the principal or redemption price of, and interest on, such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC or its nominee as provided in the Letter of Representation.

(f) In connection with any notice or other communication to be provided to Owners pursuant to the Subordinated Indenture by the Authority, any agent thereof or the Trustee with respect to any consent or other action to be taken by Owners, the Authority, any agent thereof or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(g) Notwithstanding any provision in the Subordinated Indenture to the contrary, the Authority and the Trustee may agree to allow DTC or its nominee to make a notation on any Subordinated Bond redeemed in part to reflect, for informational purposes only, the principal amount and date of any such redemption.

(h) Notwithstanding any provision in the Subordinated Indenture to the contrary, so long as the Subordinated Revenue Bonds of a Series are subject to a system of book-entry-only transfers pursuant to this heading, any requirement for the delivery of Subordinated Revenue Bonds of such Series to the Trustee or any agent thereof in connection with a mandatory tender or a demand for purchase shall be deemed satisfied upon the transfer, on the registration books of DTC, of the beneficial ownership interests in such Subordinated Revenue Bonds tendered for purchase to the account of any such agent, or a Direct Participant acting on behalf of any such agent.

Refunding Subordinated Revenue Bonds. Additional Subordinated Revenue Bonds may be issued pursuant to the Subordinated Indenture, if and to the extent needed to refund Outstanding Subordinated Revenue Bonds, which refunding Additional Subordinated Revenue Bonds may be on a parity with or subordinate to the Subordinated Revenue Bonds that are being refunded, provided that

(a) the provisions of the Subordinated Indenture, shall not be required to be satisfied if the aggregate Debt Service on the refunding Additional Subordinated Revenue Bonds is equal to or less than the aggregate Debt Service on the refunded Subordinated Revenue Bonds;

(b) there is evidence that the Authority has made provisions for the repayment of the Subordinated Revenue Bonds to be refunded; and

(c) such other requirements provided in the Subordinated Indenture are fulfilled.

Supplemental Subordinated Indentures; Override. Notwithstanding any provisions in the Subordinated Indenture to the contrary, a Supplemental Subordinated Indenture authorizing the issuance of a Series of Subordinated Revenue Bonds may modify the terms of those Subordinated Revenue Bonds, and the prescribed form thereof, in a manner inconsistent with the Subordinated Indenture, and in such case the terms of the Supplemental Subordinated Indenture shall control as to the related Series of Subordinated Revenue Bonds; provided however, that the terms of the Supplemental Subordinated Indenture may not be such as to materially prejudice the interests of the Owners of Subordinated Revenue Bonds then Outstanding in the opinion of the Bond Counsel, and, as to Subordinated Revenue Bonds secured by a Credit Facility, the Credit Provider, provided that:

(a) the terms of a Supplemental Subordinated Indenture authorizing the issuance of Additional Subordinated Revenue Bonds (including Subordinated Revenue Bonds which are refunding Subordinated Revenue Bonds) permitted by the Subordinated Indenture; and

(b) the terms of a Supplemental Subordinated Indenture permitted by the Subordinated Indenture shall, in each case, be conclusively deemed to be terms which do not materially prejudice the interests of the Owners of Subordinated Revenue Bonds then Outstanding.

The Trustee may, but will not be obligated to, enter into any such Supplemental Subordinated Indenture which affects the Trustee's own rights, duties, or immunities under the Subordinated Indenture or otherwise.

Variable Rate Subordinated Revenue Bonds.

(a) A Supplemental Subordinated Indenture may provide that a Series of Subordinated Revenue Bonds be issued as Variable Rate Subordinated Revenue Bonds.

(b) If and as further provided in the Supplemental Subordinated Indenture authorizing the issuance of a Series of Variable Rate Subordinated Revenue Bonds, the Authority shall appoint a Remarketing Agent to remarket the Variable Rate Subordinated Revenue Bonds of such Series from time to time, and to perform such other duties as the Authority or the Trustee shall deem necessary or advisable, which duties may include determinations from time to time of the rate of interest to be borne by such Series of Variable Rate Subordinated Revenue Bonds. Each such Remarketing Agent shall be appointed pursuant to the applicable Supplemental Subordinated Indenture, and the Authority shall enter into an agreement with such Remarketing Agent specifying the duties and obligations of the Remarketing Agent, and providing for compensation to the Remarketing Agent. The Trustee shall also be a party to the Remarketing Agreement if necessary and the Trustee shall execute and deliver, or consent to, the Remarketing Agreement if directed to do so by the Authority.

(c) The provisions of the Subordinated Indenture, as from time to time supplemented, pertinent to Variable Rate Subordinated Revenue Bonds shall apply only for so long as such Subordinated Revenue Bonds bear interest subject to redetermination as provided therein and in the applicable Supplemental Subordinated Indenture. From and after the date on which such Subordinated Revenue Bonds become obligations which bear interest at a single numerical rate for their remaining term, such Subordinated Revenue Bonds shall be deemed Fixed Interest Rate Subordinated Revenue Bonds subject only to the provisions of the Subordinated Indenture applicable to Fixed Interest Rate Subordinated Revenue Bonds.

Subordinated Capital Appreciation Bonds/Deferred Interest Bonds.

(a) A Supplemental Subordinated Indenture may provide that a Series of Subordinated Revenue Bonds, or any portion thereof, may be issued as Subordinated Capital Appreciation Bonds or Subordinated Deferred Interest Bonds. The Supplemental Subordinated Indenture authorizing the issuance of Subordinated Capital Appreciation Bonds shall specify the Accreted Value thereof as of specified dates from the date of issue to maturity. The Supplemental Subordinated Indenture authorizing the issuance of Subordinated Deferred Interest Bonds shall further specify the Interest Commencement Date and the Appreciated Value of such Subordinated Deferred Interest Bonds as of specified dates from date of issue to the Interest Commencement Date.

(b) Unless provided to the contrary in the Supplemental Subordinated Indenture authorizing the issuance of Subordinated Deferred Interest Bonds, on and after the Interest Commencement Date any such Subordinated Deferred Interest Bonds shall be treated as Fixed Interest Rate Subordinated Revenue Bonds as well as Subordinated Current Interest Bonds.

Credit Facilities. Nothing in the Subordinated Indenture or any Supplemental Subordinated Indenture shall be construed to limit the right of the Authority to obtain a Credit Facility for the benefit of the Owners of all or any portion of any Series of Subordinated Revenue

Bonds issued under the Subordinated Indenture. The terms and conditions for each such Credit Facility shall be set forth in the applicable Supplemental Subordinated Indenture and in the related Credit Agreement. Each Credit Facility shall be held by the Trustee for the sole and exclusive benefit of the Owners of the Series of Subordinated Revenue Bonds (or specific Subordinated Revenue Bonds within such Series) secured by such Credit Facility, and such Credit Facility shall not be an asset available for the benefit of the Owners of any other Subordinated Revenue Bonds.

Mandatory Purchase; Tender. The Subordinated Revenue Bonds of any Series, or any portion thereof, may be subject to mandatory purchase by the Authority on a specified date or dates, or may be subject to purchase upon tender thereof by the Owners on a specified date or dates. The dates on which Subordinated Revenue Bonds of a Series, or any portion thereof, shall be purchased, or may be tendered for purchase, shall be set forth in the related Supplemental Subordinated Indenture.

Any money held or accumulated with the Trustee to fulfill the Authority's obligation to purchase Subordinated Revenue Bonds shall be held in a separate subaccount in the Purchase Account in a Debt Service Account, which subaccount shall be designated to clearly identify the Series of Subordinated Revenue Bonds or any portion thereof for which it is established, and the Owners of the Subordinated Revenue Bonds, other than the Owners of the Series of Subordinated Revenue Bonds or any portion thereof to which such subaccount relates, shall have no claim thereon.

If and to the extent the Authority is required to segregate or otherwise set aside money from Diageo Matching Fund Revenues in connection with an obligation of the Authority to purchase Subordinated Revenue Bonds upon tender or demand, such obligation shall be expressly subordinated to the Authority's obligation to pay debt service when due on all Subordinated Revenue Bonds Outstanding.

Execution and Authentication. (a) The Subordinated Revenue Bonds shall be executed on behalf of the Authority by the manual or facsimile signature of the Governor of the Virgin Islands, and the seal (or a facsimile thereof) of the Authority shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested to by the manual or facsimile signature of the Secretary of the Authority, or in such other manner as may be required or permitted by law. In case any one or more of the officers who shall have signed or sealed any of the Subordinated Revenue Bonds shall cease to be such officer before the Subordinated Revenue Bonds so signed and sealed shall have been authenticated and delivered, such Subordinated Revenue Bonds may, nevertheless, be authenticated and delivered as provided in the Subordinated Indenture, and may be issued as if the persons who signed or sealed such Subordinated Revenue Bonds had not ceased to hold such offices. Any Subordinated Bond may be signed and sealed on behalf of the Authority by such persons as at the time of the execution of such Subordinated Revenue Bonds shall be duly authorized or hold the proper office in the Authority, although at the date borne by the Subordinated Revenue Bonds such persons may not have been so authorized or have held such office.

(b) The Subordinated Revenue Bonds shall bear thereon a certificate of authentication, in the form set forth in the Subordinated Indenture, executed manually by the Trustee. Only such Subordinated Revenue Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Subordinated Indenture and no Subordinated Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon

any Subordinated Bond executed on behalf of the Authority shall be conclusive evidence that the Subordinated Bond so authenticated has been duly authenticated and delivered under the Subordinated Indenture and that the Owner thereof is entitled to the benefits of the Subordinated Indenture.

Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging Subordinated Revenue Bonds or transferring registered Subordinated Revenue Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Subordinated Revenue Bonds in accordance with the provisions of the Subordinated Indenture. All Subordinated Revenue Bonds surrendered in any such exchange or transfer shall forthwith be canceled by the Trustee. For every such exchange or transfer of Subordinated Revenue Bonds, whether temporary or definitive, the Authority may only make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Authority nor the Trustee shall be required (a) to transfer or exchange Subordinated Revenue Bonds for a period beginning on the Record Date next preceding an Interest Payment Date for the Subordinated Revenue Bonds and ending on such Interest Payment Date, or for a period of fifteen days next preceding the date (as determined by the Trustee) of any selection of Subordinated Revenue Bonds to be redeemed or thereafter until after the mailing of any notice of redemption; or (b) to transfer or exchange any Subordinated Revenue Bonds called or tendered for redemption, in whole or in part.

Privilege of Redemption and Redemption Price. Subordinated Revenue Bonds subject to mandatory, optional or extraordinary redemption prior to maturity pursuant to any Supplemental Subordinated Indenture shall be redeemable, upon notice as provided in the Subordinated Indenture, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in the Subordinated Indenture as may be specified in any Supplemental Subordinated Indenture.

Redemption at the Election or Direction of the Authority. In the case of any redemption of Subordinated Revenue Bonds at the election or direction of the Authority, the Board shall give written notice to the Trustee not less than 15 days prior to the date of the giving of the notice of the redemption of the Authority's election or direction so to redeem, of the redemption date of the Series, and of the principal amounts of the Subordinated Revenue Bonds of each maturity of such Series to be redeemed (which Series, maturities and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained in the Subordinated Indenture). Such notice shall be given not less than 30 nor more than 60 days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in the Subordinated Indenture, there shall be paid on or prior to the redemption date to the appropriate Paying Agent an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Subordinated Revenue Bonds to be redeemed. The Authority shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

Redemption Otherwise than at Authority's Election or Direction. Whenever by the terms of the Subordinated Indenture the Trustee is required or authorized to redeem Subordinated Revenue Bonds otherwise than by any Supplemental Subordinated Indenture at the election or direction of the Authority, the Trustee shall select the Subordinated Revenue Bonds to be redeemed, as provided in the Subordinated Indenture, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid

to the redemption date, to the appropriate Paying Agent in accordance with the terms of the Subordinated Indenture.

Selection of Subordinated Revenue Bonds to be Redeemed. If less than all of the Subordinated Revenue Bonds of like maturity of any Series shall be called for prior redemption, the particular Subordinated Revenue Bonds or portions of the Subordinated Revenue Bonds to be redeemed shall be selected at random, by the Trustee in accordance with its customary practices or as the Authority may direct in writing in accordance with DTC procedures; provided, however, that the portion of any Bond of a denomination greater than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and that, in selecting portions of such Subordinated Revenue Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Subordinated Revenue Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000; provided, however, notwithstanding the foregoing, the Trustee shall revise the Subordinated Revenue Bonds or portions thereof to be redeemed as determined by the foregoing, in any manner deemed by the Trustee in its sole judgment to be fair and reasonable, so that no Bond Outstanding following any redemption shall be in a principal amount less than an authorized denomination therefor.

Notice of Redemption. When the Trustee shall receive written notice from the Board, acting on behalf of the Authority, of its election or direction to redeem Subordinated Revenue Bonds pursuant to the Subordinated Indenture, and when redemption of Subordinated Revenue Bonds is required or authorized pursuant to the Subordinated Indenture, the Trustee shall give notice, in the name and expense, of the Authority, of the redemption of such Subordinated Revenue Bonds, which notice shall specify the Series and maturities of the Subordinated Revenue Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Subordinated Revenue Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Subordinated Revenue Bonds so to be redeemed, and, in the case of Subordinated Revenue Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Subordinated Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Subordinated Revenue Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. Such notice shall be mailed by the Trustee by first class mail, postage prepaid, not more than 60 days nor less than 30 days before the redemption date, to each of the Owners of any Subordinated Revenue Bonds or portions of Subordinated Revenue Bonds which are to be redeemed, at their last addresses, if any, appearing upon the Subordinated Bond Register, but any defect in, or the failure of any Bondowner to receive, any such notice shall not affect the validity of the proceedings for the redemption of Subordinated Revenue Bonds. Notwithstanding the foregoing, failure to mail any such notice pursuant to the Subordinated Indenture to any particular Owner of a Subordinated Bond shall not affect the validity of any proceedings for the redemption of any other Subordinated Bond.

Payment of Redeemed Subordinated Revenue Bonds. Notice having been given in the manner provided in the Subordinated Indenture, the Subordinated Revenue Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Subordinated Revenue Bonds or portions thereof shall be paid at the Redemption Price, plus interest accrued

and unpaid to the redemption date. If there shall be called for redemption less than all of a Subordinated Bond, the Authority shall execute and the Trustee shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Subordinated Bond so surrendered, at the option of the Owner thereof, Subordinated Revenue Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Subordinated Revenue Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Subordinated Revenue Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Subordinated Revenue Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Receipt of Moneys. With respect to any notice of optional redemption of Subordinated Revenue Bonds in accordance with the Subordinated Indenture, unless, upon the giving of such notice, such Subordinated Revenue Bonds shall be deemed to have been paid within the meaning of the Subordinated Indenture, the notice may state that the optional redemption shall be conditional upon receipt by the Trustee, on or before the date fixed for redemption, of moneys sufficient to pay the principal of, premium, if any, and interest on the Subordinated Revenue Bonds to be redeemed and that if such moneys shall not have been so received such notice shall be of no force and effect and the Authority shall not be required to redeem the Subordinated Revenue Bonds. In the event that the notice of the optional redemption contains such a condition and such moneys sufficient to pay the principal of, premium, if any, and interest on the Subordinated Revenue Bonds are not received on or before the date fixed for redemption, the optional redemption shall not be made and the Trustee shall, within a reasonable time after the last date on which such moneys were to have been received, give notice in the manner in which the notice of the optional redemption was given, that such moneys were not received and that the optional redemption will not occur.

Pledge of Diageo Matching Fund Revenues; Creation of Accounts and Subaccounts; “Diageo Trust Moneys” Defined.

(a) The Subordinated Revenue Bonds shall be special, limited obligations of the Authority payable as to principal or Redemption Price, if any, and interest thereon, in accordance with their terms and the terms and provisions of the Subordinated Indenture solely from the Diageo Matching Fund Revenues, and secured by a lien on and security interest in the Diageo Trust Estate, subject only to the provisions of the Subordinated Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Subordinated Indenture. The Authority has no taxing power and its debts are not debts of the United States Virgin Islands or any political subdivision of the United States Virgin Islands. No holder of the Subordinated Revenue Bonds shall have the right to compel any exercise of the taxing power of the United States Virgin Islands to pay the principal of or interest on the Subordinated Revenue Bonds.

(b) (i) The proceeds of each Series of Subordinated Revenue Bonds and all Diageo Matching Fund Revenues and other sums pledged and assigned by the Subordinated Indenture to the Trustee for the benefit of the Bondowners, are to be deposited in the Accounts and Subaccounts described in the Subordinated Indenture and established by the Subordinated Indenture, and, upon deposit with the Trustee in said Accounts and Subaccounts, shall not be

subject to any lien or attachment by any creditor of the Authority or any Credit Provider or other person other than the lien of the Subordinated Indenture.

(ii) The Authority has created and shall maintain or cause to be maintained the following Accounts and Subaccounts to be held by the Trustee, to be held and administered as trust funds under and pursuant to the terms of the Subordinated Indenture, or held by the Authority, as hereinafter provided:

(1) The Diageo Pledged Revenue Account to be held by the Trustee;

(2) The Senior Lien Debt Service Account, to be held by the Trustee with such separate Subaccounts therein as shall be provided in the Subordinated Indenture or in the applicable Supplemental Subordinated Indenture creating a Series of Senior Lien Bonds, including, as applicable, any of the following accounts therein:

(A) A Senior Lien Interest Subaccount;

(B) A Senior Lien Principal Subaccount;

(C) A Senior Lien Redemption Subaccount;

(D) A Senior Lien Credit Subaccount with respect to each Credit Facility;

(E) A Senior Lien Expense Subaccount;

(F) A Senior Lien Purchase Subaccount;

(G) A Senior Lien Capitalized Interest Subaccount;

(H) Any other Account or Subaccount established by the applicable Supplemental Subordinated Indenture;

(3) The Senior Lien Debt Service Reserve Account, to be held by the Trustee, with such separate Senior Lien Debt Service Reserve Subaccounts and Senior Lien Credit Subaccounts therein as the Authority shall determine in any Supplemental Subordinated Indenture authorizing a Series of Senior Lien Bonds;

(4) The Second Lien Debt Service Account, to be held by the Trustee with such separate Subaccounts therein as shall be provided in the Subordinated Indenture or in the applicable Supplemental Subordinated Indenture creating a Series of Second Lien Bonds, including, as applicable, any of the following accounts therein:

(A) A Second Lien Interest Subaccount;

(B) A Second Lien Principal Subaccount;

- (C) A Second Lien Redemption Subaccount;
 - (D) A Second Lien Credit Subaccount with respect to each Credit Facility;
 - (E) A Second Lien Expense Subaccount;
 - (F) A Second Lien Purchase Subaccount;
 - (G) A Second Lien Capitalized Interest Subaccount;
- and
- (H) Any other Account or Subaccount established by the applicable Supplemental Subordinated Indenture.

(5) The Second Lien Debt Service Reserve Account, to be held by the Trustee, with such separate Second Lien Debt Service Reserve Subaccounts and Second Lien Credit Subaccounts therein as the Authority shall determine in any Supplemental Subordinated Indenture authorizing a Series of Second Lien Bonds;

(6) The Construction Account, to be held by the Trustee with such separate Subaccounts therein as the Authority shall determine in any Supplemental Subordinated Indenture;

(7) The Cost of Issuance Account and such subaccounts therein as the Authority shall determine in any Supplemental Subordinated Indenture, to be held by the Trustee;

(8) A Rebate Account, to be held by the Trustee;

(9) A Government Account to be held by the Government;

(10) A Communities Facilities Trust Account to be held by the Authority;

(11) A Surplus Receipts Account to be held by the Trustee;

and

(12) A Surplus Account, to be held by the Authority.

(c) All moneys received by the Trustee as elsewhere in the Subordinated Indenture provided or as provided in a Supplemental Subordinated Indenture to be held and applied under the Subordinated Indenture (other than amounts in or required to be paid to the Trustee) and whose disposition is not elsewhere in the Subordinated Indenture or in a Supplemental Subordinated Indenture otherwise specifically provided for, including, but not limited to the investment income of all moneys held by the Trustee under the Subordinated Indenture (all such moneys being in the Subordinated Indenture sometimes called "Diageo Trust Moneys") shall be held by the Trustee as a part of the Diageo Trust Estate, and, upon the exercise by the Trustee of any remedy specified in the Subordinated Indenture, such Diageo Trust Moneys

shall be applied in accordance with the Subordinated Indenture, except to the extent that the Trustee is holding Diageo Trust Moneys and/or Government Obligations for the payment of any specified Series of Subordinated Revenue Bonds or a specific portion thereof which are no longer deemed to be Outstanding under the provisions of the Subordinated Indenture, which moneys and/or Government Obligations shall be applied only as provided in said the Subordinated Indenture. Prior to such application pursuant to the Subordinated Indenture, all or any part of the Diageo Trust Moneys shall be held, invested, withdrawn, paid or applied by the Trustee, from time to time, as provided in the Subordinated Indenture.

(d) Notwithstanding any other provision of the Subordinated Indenture, a Supplemental Subordinated Indenture may provide with respect to any Subordinated Revenue Bonds which are, at the relevant time, secured by a Credit Facility, that moneys for the payment of principal or Redemption Price of, premium, if any, and interest on such Subordinated Revenue Bonds shall be drawn from the Credit Facility and in connection therewith the Supplemental Subordinated Indenture which creates such Subordinated Revenue Bonds may provide for the application of Diageo Trust Moneys in the related Subaccounts in the applicable Debt Service Account to reimburse the Credit Provider for such drawing if required or permitted by a Rating Agency in connection with the assignment of a credit rating to such Subordinated Revenue Bonds.

(e) Notwithstanding any other provision of the Subordinated Indenture, a Supplemental Subordinated Indenture may, with respect to any Qualified Swap Agreement executed and delivered in connection with any one or more Series of Subordinated Revenue Bonds and to which reference was made in the Supplemental Subordinated Indenture creating such Series of Subordinated Revenue Bonds, provide for the application of Diageo Trust Moneys in the related Subaccounts in the applicable Debt Service Account to make any required net payments due under such Qualified Swap Agreement on a parity with interest payments on Subordinated Revenue Bonds if required or permitted by a Rating Agency in connection with the assignment of a credit rating to such Subordinated Revenue Bonds; provided, however, that termination payments under Qualified Swap Agreements shall not be payable on a parity with payments on the Subordinated Revenue Bonds.

(f) The Authority or the Trustee may establish one or more Subaccounts within any of the foregoing Accounts or Subaccounts in order to provide for the proper administration of and accounting for the moneys and securities held therein, and the Trustee shall establish such Subaccounts to the extent required by a Supplemental Subordinated Indenture.

Construction Account.

(a) There shall be paid into the Construction Account the amounts required by the provisions of the Subordinated Indenture and each Supplemental Subordinated Indenture. There also may be paid into the Construction Account, at the option of the Authority, any moneys received by the Authority from any source unless otherwise required to be applied by the Subordinated Indenture or any supplemental Subordinated Indenture.

(b) Separate, segregated Subaccounts may be created within the Construction Account and held by the Trustee, any tender agent, or other entity in the manner provided in any Supplemental Subordinated Indenture authorizing such Accounts. Money held in such Subaccounts shall be held separately from other moneys in the Construction Account and shall be disposed of only in the manner provided in the Supplemental Subordinated Indentures authorizing such Subaccounts.

(c) Amounts in the Construction Account shall be used to pay any or all of the following: (i) the costs of the Diageo Project and (ii) with respect to special subaccounts created within the Construction Account by a Supplemental Subordinated Indenture, to pay all amounts authorized by such Supplemental Subordinated Indenture. Except as provided under this section, money in the Construction Account shall be paid out pursuant to a requisition of the Authority and approved in accordance with the Act or other law governing the disbursement of Authority funds.

(d) Amounts in the Construction Account may be transferred to a Debt Service Account and applied to the payment of interest on or principal or redemption price of the Subordinated Revenue Bonds when due, to the extent that other funds held for those purposes are insufficient and to the extent that the Authority certifies such amounts are not then obligated to pay costs of the Diageo Project.

(e) Notwithstanding anything elsewhere in the Subordinated Indenture or any Supplemental Subordinated Indenture to the contrary, Rebate Amounts, if any, attributable to Tax-Exempt Subordinated Revenue Bonds and on deposit in the Construction Accounts shall be transferred to the Rebate Account.

Diageo Pledged Revenue Account.

The Trustee shall deposit to the Diageo Pledged Revenue Account as received from the Diageo Special Escrow Agent pursuant to the Diageo Escrow Agreement all Diageo Subordinated Matching Fund Revenues received under the Matching Fund Loan Note, the amounts required by the Subordinated Indenture, and such other Diageo Matching Fund Revenues as may be received by the Trustee which are designated for deposit to the Diageo Pledged Revenue Account under a Supplemental Subordinated Indenture or pursuant to the Diageo Agreement. The Diageo Pledged Revenue Account shall be applied as provided in the Subordinated Indenture.

Application of Diageo Pledged Revenue Account.

(a) Amounts in the Diageo Pledged Revenue Account shall be transferred annually not later than the Business Day preceding the first day of each Bond Year to Accounts and Subaccounts created under the Subordinated Indenture, so long as any Subordinated Revenue Bonds remain Outstanding under the Subordinated Indenture, in the following amounts and in the following order of priority:

(i) (1) to each Senior Lien Interest Subaccount, (A) for any Senior Lien Bonds which are Fixed Interest Rate Subordinated Revenue Bonds, an amount that, when added to any amounts on deposit in such Subaccounts, will equal 100% of that portion of the Adjusted Debt Service Requirements accruing or to accrue for all Interest Payment Periods which commence during the current Bond Year (whether or not any such Interest Payment Period ends within such current Bond Year) for such Senior Lien Bonds and (B) for any Senior Lien Bonds which are Fixed Interest Rate Subordinated Revenue Bonds, beginning in the first month of each Bond Year, an amount that, when added to any amounts on deposit in such Subaccounts, will equal 100% of that portion of the Adjusted Debt Service Requirements accruing or to accrue with respect to all Interest Payment Periods which commence during the current Bond Year (whether or not any such Interest Payment Period ends within such current Bond Year) for such Subordinated Revenue Bonds (such transfers to be subject to the credits provided for below in clause 2 of this paragraph (i));

(2) subject in each case to any credit with respect to any amounts on deposit in the Senior Lien Capitalized Interest Subaccount and any earnings thereon to the extent required to be used and available for payment of interest on specific Senior Lien Bonds as contemplated in any applicable Supplemental Subordinated Indenture and, in connection with paragraph (1) above, (A) any net payment which the Authority is required to make with respect to any Qualified Swap Agreement shall be treated in the same manner and shall have the same claim upon Pledged Diageo Matching Fund Revenues as interest on the Series of Senior Lien Bonds to which such Qualified Swap Agreement shall relate and (B) as of each Interest Payment Date for Senior Lien Bonds which are described in paragraph (i)(1)(B) above, to the extent that the actual interest payable with respect to such Senior Lien Bonds for any Interest Payment Period is less than the amount deposited into the Senior Lien Interest Subaccount, then the excess amount so deposited shall be applied as a credit to reduce the amount otherwise required to be deposited in the next succeeding month or months pursuant to the Subordinated Indenture; and then

(ii) to each Senior Lien Principal Subaccount, beginning in the first month of each Bond Year, an amount that, when added to any amounts on deposit in such subaccount, will equal 100% of the principal due on the next succeeding Principal Payment Date on all Series of Senior Lien Bonds payable from such Senior Lien Principal Subaccount; and then

(iii) to each Senior Lien Credit Subaccount, an amount sufficient to pay any principal or interest then owing to a Credit Provider under the applicable Supplemental Subordinated Indenture and Credit Agreement by reason of any drawing of amounts under the related Credit Facility for the payment of principal of or interest or premium on any Senior Lien Bonds, provided that the amount transferred pursuant to the Subordinated Indenture shall in no event be greater than the sum of (1) amounts received under the related Credit Facility for payment of amounts to or for the benefit of Owners of Senior Lien Bonds secured by such Credit Facility and (2) interest thereon at the lesser of (A) the rate specified in the Credit Agreement or (B) the applicable rate of interest on the Senior Lien Bonds or Subordinated Revenue Bonds paid out of the proceeds of such Credit Facility;

(iv) to each Senior Lien Redemption Subaccount, the amount of Diageo Matching Fund Revenues required to redeem Senior Lien Bonds subject to redemption pursuant to the related Supplemental Subordinated Indenture; and then

provided, that the amounts of the transfers described in (i), (ii), (iii) and (iv) shall be reduced to the extent of moneys previously transferred or required to be transferred to said Accounts under other provisions of the Subordinated Indenture or of a Supplemental Subordinated Indenture; and then

(v) to the Senior Lien Debt Service Reserve Account and ratably to each Account therein (if applicable), the amount of any transfer required by the Subordinated Indenture to restore any deficiency in the Senior Lien Debt Service Reserve Account and any Subaccount therein; and then

(vi) to each Senior Lien Expense Subaccount, any amounts then due and owing to the Trustee, any Paying Agent, the Remarketing Agent, the Subordinated Bond Registrar, any Credit Provider, the Diageo Special Escrow Agent or other Fiduciary which are Bond Service Charges or Bond Related Costs for Senior Lien Bonds relating to the administration

(including remarketing) and the Authority's Annual Administrative Fee which otherwise have not been provided for in (i), (ii), (iii) or (iv) above; and then

(vii) to each Senior Lien Rebate Account the amount required to comply with the Subordinated Indenture for Senior Lien Bonds and such amounts shall be applied as provided in the Subordinated Indenture; and then

(viii) (1) to each Second Lien Interest Subaccount, (A) for any Second Lien Bonds which are Fixed Interest Rate Subordinated Revenue Bonds, an amount that when added to any amounts on deposit in such Subaccounts, will equal 100% of that portion of the Adjusted Debt Service Requirements accruing or to accrue for all Interest Payment Periods which commence during the current Bond Year (whether or not any such Interest Payment Period ends within such current Bond Year) for such Second Lien Bonds and (B) for any Second Lien Bonds which are not Fixed Interest Rate Bonds, not later than the Business Day preceding the first day of each Bond Year, an amount that, when added to any amounts on deposit in such Subaccounts, will equal 100% of that portion of the Adjusted Debt Service Requirements accruing or to accrue with respect to all Interest Payment Periods that commence during the current Bond Year (whether or not any such Interest Payment Period ends within such current Bond Year) for such Subordinated Revenue Bonds (such transfers to be subject to the credits provided for below in clause (2) of this paragraph (viii));

(2) subject in each case to any credit with respect to any amounts on deposit in the Second Lien Capitalized Interest Subaccount to be used for Capitalized Interest and any earnings thereon to the extent required to be used and available for payment of interest on specific Second Lien Bonds as contemplated in any applicable Supplemental Subordinated Indenture and, in connection with paragraph (1) above, (A) any net payment which the Authority is required to make with respect to any Qualified Swap Agreement shall be treated in the same manner and shall have the same claim upon Diageo Matching Fund Revenues as interest on the Series of Second Lien Bonds to which such Qualified Swap Agreement shall relate and (B) as of each Interest Payment Date for Second Lien Bonds which are described in paragraph (viii)(1)(B) above, to the extent that the actual interest payable with respect to such Second Lien Bonds in any Interest Payment Period is less than the amount deposited into the Second Lien Interest Subaccount, then the excess amount so deposited shall be applied as a credit to reduce the amount otherwise required to be deposited on the Business Day next preceding the first day of each Bond Year pursuant to the Subordinated Indenture; and then

(ix) to each Second Lien Principal Subaccount, on not later than the Business Day preceding the first day of each Bond Year, an amount that, when added to any amounts on deposit in such subaccount, will equal 100% of the principal due on the next succeeding Principal Payment Date on the Series of Second Lien Bonds payable from such Second Lien Principal Subaccount; and then

(x) to each Second Lien Credit Subaccount, an amount sufficient to pay any principal or interest then owing to a Credit Provider under the applicable Supplemental Subordinated Indenture and Credit Agreement by reason of any drawing of amounts under the related Credit Facility for the payment of principal of or interest or premium on any Second Lien Bonds, provided that the amount transferred pursuant to the Subordinated Indenture shall in no event be greater than the sum of (1) amounts received under the related Credit Facility for payment of amounts to or for the benefit of Owners of Second Lien Bonds secured by such Credit Facility and (2) interest thereon at the lesser of (A) the rate specified in the Credit Agreement or

(B) the applicable rate of interest on the Second Lien Bonds or Subordinated Revenue Bonds paid out of the proceeds of such Credit Facility;

(xi) to each Second Lien Redemption Subaccount, the amount of Diageo Matching Fund Revenues required to redeem Second Lien Bonds subject to redemption pursuant to the related Supplemental Subordinated Indenture; and then

(xii) to the Second Lien Debt Service Reserve Account and ratably to each Subaccount therein (if applicable), the amount of any transfer required by the Subordinated Indenture to restore any deficiency in the Second Lien Debt Service Reserve Account and any Subaccount therein; and then

(xiii) to each Second Lien Expense Subaccount, any amounts then due and owing to the Trustee, any Paying Agent, the Remarketing Agent, the Subordinated Bond Registrar, any Credit Provider, the Diageo Special Escrow Agent or other Fiduciary which are Bond Service Charges or Bond Related Costs for Second Lien Bonds relating to the administration (including remarketing) and the Authority's Annual Administrative Fee which otherwise have not been provided for in (viii), (ix), (x), (xi) and (xii) above; and then

provided, that the amounts of the transfers described in (ix), (x), (xi), (xii) and (xiii) shall be reduced to the extent of moneys previously transferred or required to be transferred to said Accounts under other provisions of this heading or of a Supplemental Subordinated Indenture; and then

(xiv) to each Second Lien Rebate Account in the amount required to comply with the Subordinated Indenture for Second Lien Bonds and such amounts shall be applied as provided in the Subordinated Indenture; and then

(xv) to the Government Account in the amount certified by the Calculation Agent in accordance with the Diageo Special Escrow Agreement and subject to any adjustment in accordance with the Diageo Agreement; and then

(xvi) to the Communities Facilities Trust Account in the amount certified by the Calculation Agent in accordance with the Diageo Special Escrow Agreement and the Diageo Agreement; and then

(xvii) to the Surplus Receipts Account in the amount certified by the Calculation Agent in accordance with the Diageo Special Escrow Agreement as required to comply with the Diageo Agreement; and then

(xviii) except as may be provided in one of more Supplemental Subordinated Indentures to the contrary, to the Surplus Account for application pursuant to the Subordinated Indenture.

(b) Solely for the purpose of administering this heading, any interest which is payable on Subordinated Capital Appreciation Bonds or, prior to the Interest Commencement Date, on Subordinated Deferred Interest Bonds, shall be deemed to be "due" in the Bond Year in which payment is scheduled to be made thereon and, for such purposes, such amounts shall be deemed to be "principal" under the subsections above rather than "interest" under the subsections above.

(c) At the close of each Bond Year, the Trustee shall deliver to the Authority and its financial advisor, as designated by the Authority, a written statement setting forth the Debt Service paid in such Bond Year and the closing balance of the Debt Service Reserve Account for such Bond Year. The Trustee shall make such statement available upon the written request of any Bondholder.

Senior Lien Debt Service Accounts and Subaccounts Therein.

(a) There shall be deposited into the Senior Lien Debt Service Account all amounts required to be remitted, transferred or otherwise deposited therein as provided in the Subordinated Indenture together with such additional amounts to be deposited into various specified Subaccounts within the Senior Lien Debt Service Account as described in the Subordinated Indenture.

(b) Senior Lien Interest Subaccount.

(i) There shall be deposited in each Senior Lien Interest Subaccount, upon issuance of each Series of Senior Lien Bonds, the amount of accrued interest received from the sale of such Subordinated Revenue Bonds and there shall be deposited thereafter all other amounts required by the Subordinated Indenture. If on any Interest Payment Date there are not sufficient amounts on deposit in the Senior Lien Interest Subaccount to pay the total amount of interest coming due on the Senior Lien Bonds on such Interest Payment Date, the Trustee shall forthwith transfer to the Senior Lien Interest Subaccount from other funds or accounts, in the order listed in the Subordinated Indenture, an amount equal to the deficiency. Interest income derived from the investment of amounts on deposit in the Senior Lien Interest Subaccount of the Senior Lien Debt Service Account shall remain in such Senior Lien Interest Subaccount and shall be credited against the amount next due to be transferred to such Senior Lien Interest Subaccount from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture. Notwithstanding the foregoing, any Rebate Amount on deposit in such Senior Lien Interest Subaccount shall be transferred to the Rebate Account at the direction of the Authority.

(ii) On each Interest Payment Date for Senior Lien Bonds the Trustee shall withdraw from the Senior Lien Interest Subaccount an amount sufficient to pay the interest coming due on the Senior Lien Bonds on such Interest Payment Date and shall use such amounts to pay or make provision with the Paying Agent for the payment of, interest on the Senior Lien Bonds on such Interest Payment Date; provided, however, that if and to the extent payment of interest on the Senior Lien Bonds, or any Series thereof or specific portion thereof, shall be made from moneys drawn under a Credit Facility, the Trustee shall transfer to the Senior Lien Credit Subaccount relating to such Series of Senior Lien Bonds or specific portion thereof and remit to the Credit Provider from said Subaccount in such Senior Lien Credit Subaccount, on the Interest Payment Date, all moneys provided by Credit Facility proceeds or otherwise apply such moneys as provided in the related Supplemental Subordinated Indenture, Credit Agreement, Related Agreement or Related Document.

(c) Senior Lien Principal Subaccount.

(i) There shall be transferred to the Senior Lien Principal Subaccount, on the first day of each Bond Year, the amount required to be transferred from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture. If on any Principal Payment Date there are not sufficient amounts on deposit in the Senior Lien Principal Subaccount to pay the total amount of principal coming due on the Subordinated Revenue Bonds on such Principal

Payment Date, the Trustee shall forthwith transfer to the Senior Lien Principal Subaccount from other Accounts, in the order listed in the Subordinated Indenture, an amount equal to the deficiency. All interest income derived from the investment of amounts on deposit in the Senior Lien Principal Subaccount shall remain in the Senior Lien Principal Subaccount and be credited against the amount next due to be transferred to the Senior Lien Principal Subaccount from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture. Notwithstanding the foregoing, any Rebate Amount on deposit in the Senior Lien Principal Subaccount shall be transferred to the Rebate Account at the direction of the Authority.

(ii) Amounts on deposit from time to time in the Senior Lien Principal Subaccount shall be used on any Interest Payment Date to provide sums equal to any deficiency in the Senior Lien Interest Subaccount as provided in the Subordinated Indenture.

(iii) On or before each Principal Payment Date for Senior Lien Bonds, the Trustee shall withdraw from the Senior Lien Principal Subaccount an amount sufficient to pay the scheduled principal coming due on the Senior Lien Bonds on such Principal Payment Date, and shall use such amounts to pay, or make provision with the Paying Agents for the payment of, principal of the Subordinated Revenue Bonds on such Principal Payment Date, whether by reason of stated maturity or by reason of Mandatory Sinking Fund; provided, however, that if and to the extent payment of principal coming due on the Senior Lien Bonds, or any Series thereof or specific portion thereof, shall be made from moneys drawn under a Credit Facility, the Trustee shall transfer to the subaccount within the Senior Lien Credit Subaccount related to such Series of Senior Lien Bonds or specific portion thereof and remit to the Credit Provider from said Subaccount within the Senior Lien Credit Subaccount, on the Principal Payment Date on which payment is made, all moneys then on deposit in the Senior Lien Principal Subaccount provided by Credit Facility proceeds or otherwise apply such moneys as provided in the related Supplemental Subordinated Indenture, Credit Agreement, Related Agreement or Related Document.

(d) Senior Lien Redemption Subaccount.

(i) Any amounts to be used to prepay Senior Lien Bonds by the Authority shall be deposited in the Senior Lien Redemption Subaccount related to such Series of Subordinated Revenue Bonds to be redeemed and applied as provided by the Supplemental Subordinated Indenture or, if no provision is made by the applicable Supplemental Subordinated Indenture, such amounts at the direction of the Authority shall be applied to purchase Senior Lien Bonds to be surrendered to the Trustee as a credit against Debt Service Requirements when due or to pay the principal of and premium, if any, of the Senior Lien Bonds then subject to and called for redemption.

(ii) If the Series of Senior Lien Bonds to be redeemed (or any specific Senior Lien Bonds within such Series) is secured by a Credit Facility, and the related Credit Facility or Credit Agreement provides that payment of principal of such Series of Senior Lien Bonds (or specific Senior Lien Bonds within such Series) will be made from such Credit Facility, the Trustee shall transfer to the subaccount within the Senior Lien Credit Subaccount related to such Series of Senior Lien Bonds and remit to the Credit Provider from such subaccount within the Senior Lien Credit Subaccount, on the redemption date, all moneys then on deposit in the Senior Lien Redemption Subaccount provided by Credit Facility proceeds.

(iii) Any funds transferred to the Senior Lien Redemption Subaccount from a Construction Account as excess proceeds shall be applied only to redeem Senior Lien Bonds of the Series from which such Construction Account proceeds were derived, if any such Senior Lien

Bonds are Outstanding. Other funds transferred to the Senior Lien Redemption Subaccount shall be applied to redeem Senior Lien Bonds then subject to redemption as provided in the applicable Supplemental Subordinated Indenture or, if the Supplemental Subordinated Indenture does not specifically so provide, as the Authority shall direct in writing.

(iv) All income derived from the investment of amounts on deposit in the Senior Lien Redemption Subaccount shall be transferred to the Senior Lien Interest Subaccount and applied as a credit against the amounts next due to be transferred to the Senior Lien Interest Subaccount from the Diageo Pledged Revenue Account provided in the Subordinated Indenture. Notwithstanding the foregoing, any Rebate Amount on deposit in the Senior Lien Redemption Subaccount shall be transferred to the Rebate Account at the direction of the Authority.

(v) Notwithstanding any other provisions of the Subordinated Indenture, moneys on deposit in the Senior Lien Redemption Subaccount may be withdrawn therefrom only to the extent that such moneys have not theretofore been committed to the purchase or redemption of Senior Lien Bonds for which proper notice has been given.

(e) Senior Lien Expense Subaccount.

(i) The Trustee shall create a separate Senior Lien Expense Subaccount for each Series of Senior Lien Bonds with such subaccounts therein as the Authority shall from time to time provide, unless the Authority provides in a Supplemental Subordinated Indenture or otherwise directs in writing that one such Account shall relate to Senior Lien Bonds of more than one Series.

(ii) The Trustee shall transfer from the Diageo Pledged Revenue Account to the Senior Lien Expense Subaccount the amounts directed by the Subordinated Indenture for the payment of amounts therein specified. The Trustee may rely in good faith upon written directions of the Authority as to the amount to be transferred to the Senior Lien Expense Subaccount, or disbursed therefrom to any payee. The amount disbursed from the Senior Lien Expense Subaccount to the Trustee (as Trustee, Paying Agent, Subordinated Bond Registrar, or in any other capacity) shall not exceed the amount agreed to by the Authority as the compensation due to the Trustee for its services. The amount disbursed from the Senior Lien Expense Subaccount to the Authority as the Authority's Annual Administrative Fee shall not exceed the administrative expense budget approved by the Board of the Authority. For payees other than the Trustee and the Authority, the amount disbursed to any payee shall be the amount agreed to by the Authority in writing, or if no agreement exists or is applicable, in the amount directed in writing by the Authority.

(iii) All income derived from the investment of amounts on deposit in the Senior Lien Expense Subaccount shall be retained therein and applied as a credit against the amounts next due to be transferred to the Senior Lien Expense Subaccount from the Diageo Pledged Revenue Account as provided in the Subordinated Indenture.

(f) Purchase or Repayment of Subordinated Revenue Bonds at Request of Authority; Senior Lien Purchase Subaccount.

(i) The Trustee shall deposit funds in the Senior Lien Purchase Subaccount as follows and as provided in any Supplemental Subordinated Indenture:

(1) the proceeds of remarketing of Senior Lien Bonds, except to the extent such proceeds are required by the terms of a Supplemental Subordinated Indenture and related Remarketing Agreement to be paid to Bondowners selling such Senior Lien Bonds or to a Credit Provider which has provided the funds required to purchase such Senior Lien Bonds;

(2) funds provided by a Credit Provider to purchase Senior Lien Bonds;

(3) other funds provided to the Trustee by the Authority or any other Person accompanied by a written direction to deposit such funds in the Senior Lien Purchase Subaccount; and

(4) any other funds required to be so deposited by a Supplemental Subordinated Indenture.

(ii) Diageo Funds from time to time held in the Senior Lien Purchase Subaccount shall be disbursed therefrom as provided in the related Supplemental Subordinated Indenture, or as directed in writing by the Authority, which direction may not be inconsistent with the other provisions of the Subordinated Indenture or the applicable related Supplemental Subordinated Indenture.

(iii) Unless otherwise provided in the applicable Supplemental Subordinated Indenture, all income derived from the investment of amounts on deposit in the Senior Lien Purchase Subaccount shall be transferred upon receipt to the Diageo Pledged Revenue Account.

(g) Senior Lien Credit Subaccount.

(i) To the extent so provided in the applicable Supplemental Subordinated Indenture, the Trustee shall create a separate Senior Lien Credit Subaccount within the Senior Lien Debt Service Account for each Series of Senior Lien Bonds (or specific Senior Lien Bonds within a Series) secured by a Credit Facility. In addition, for any Credit Facility which constitutes a bond insurance policy or similar instrument pursuant to which the Credit Provider is entitled to subrogation rights as to amounts paid to Bond Owners secured thereby, the Supplemental Subordinated Indenture relating thereto may provide for payment directly to such Credit Provider of available amounts in the Senior Lien Principal and Interest Subaccounts by reason of such subrogation rather than establishing a Senior Lien Credit Subaccount and requiring a transfer of such amounts thereto prior to payment of such amounts to such Credit Provider.

(ii) All amounts drawn under a Credit Facility for which a Senior Lien Credit Subaccount is established to pay the principal or Redemption Price of, Purchase Price of, premium, if any, and interest on, any Series of Senior Lien Bonds or a specific portion thereof, shall be deposited in the related Senior Lien Principal Subaccount, Senior Lien Interest Subaccount, Senior Lien Purchase Subaccount or other Account created under the related Supplemental Subordinated Indenture and the Trustee shall apply such amounts to the purpose for which they were drawn, as further provided in the related Supplemental Subordinated Indenture, Credit Agreements, Related Agreements or Related Documents. Promptly upon such deposit and application, the Trustee shall transfer from the appropriate Account or Subaccount to the applicable Senior Lien Credit Subaccount all Diageo Matching Fund Revenues or other amounts provided by Credit Facility proceeds or such Diageo Matching Fund Revenues, or other amounts

which become available by reason of the application of such Credit Facility proceeds as provided in the Supplemental Subordinated Indenture, all of which amounts shall not exceed the amounts drawn on the Credit Facility and deposited pursuant to the first sentence of this paragraph plus interest thereon at a rate which is the lesser of (1) the interest rate specified in the Credit Agreement or (2) the interest rate or rates on the Senior Lien Bonds paid with the proceeds of the Credit Facility. The Trustee shall remit such amounts from the applicable Senior Lien Credit Subaccount to the applicable Credit Provider as shall be provided in the related Supplemental Subordinated Indenture or Credit Agreement.

(iii) The proceeds of any Credit Facility issued in connection with and for the benefit of any Series of Senior Lien Bonds (or specific Senior Lien Bonds within a Series) shall be deposited as provided in this subsection and the Supplemental Subordinated Indenture for the related Series of Senior Lien Bonds (or specific Senior Lien Bonds within a Series) and shall be transferred and/or applied solely for the benefit of the Bondowners of the Series of Subordinated Revenue Bonds (or specific Subordinated Revenue Bonds within a Series) to which the Credit Facility relates; and, accordingly, the Owners of the Subordinated Revenue Bonds of any other Series shall not be entitled to the benefit of, or receive, the proceeds of a Credit Facility which does not secure the Subordinated Revenue Bonds held by Owners.

(iv) The provisions of this subsection are subject in all respects to the terms and conditions of each Credit Facility, Credit Agreement, Related Agreements, Related Documents and the related Supplemental Subordinated Indenture.

(h) Senior Lien Capitalized Interest Subaccount.

Except as provided in a Supplemental Subordinated Indenture with respect to a Series of Senior Lien Bonds, to the extent available therein, on each date Diageo Matching Fund Revenues are transferred pursuant to the Subordinated Indenture, the Trustee shall transfer from the Senior Lien Capitalized Interest Subaccount to any related Senior Lien Interest Subaccount, the amount of interest required to be transferred pursuant to the Subordinated Indenture. Each transfer shall be made on or immediately prior to the day on which the Trustee transfers or otherwise remits Diageo Matching Fund Revenues as provided in the Subordinated Indenture and shall be credited against the transfer then due from the Diageo Pledged Revenue Account. Investment income on amounts held in the Senior Lien Capitalized Interest Subaccount (net of investment losses and amounts required to be transferred to the Rebate Account) shall be credited to the Senior Lien Capitalized Interest Subaccount.

(i) Pro Rata Payments.

In the event the amount then on deposit in the Senior Lien Interest Subaccount or the Senior Lien Principal Subaccount on an Interest Payment Date or Principal Payment Date is not sufficient to pay to the Owners of the Senior Lien Bonds the full amount of interest on and principal of all Outstanding Senior Lien Bonds then due and such deficiency cannot be cured as provided in the Subordinated Indenture, the Trustee shall nonetheless pay out all moneys on deposit in the Senior Lien Interest Subaccount and Senior Lien Principal Subaccount to the Persons entitled thereto, pro rata according to the amount owed to each (subject in all events to any provisions to the contrary as to Credit Facilities or other amounts which a Supplemental Subordinated Indenture may pledge or otherwise provide for under procedures by which specific Diageo Matching Fund Revenues thereunder are for the specific benefit of a Series of Senior Lien Bonds or specific Senior Lien Bonds within a Series).

Deficiencies in the Senior Lien Interest Subaccount or Senior Lien Principal Subaccount.

(a) In the event, on an Interest Payment Date or Principal Payment Date, the amount then on deposit in the Senior Lien Interest Subaccount or the Senior Lien Principal Subaccount is not sufficient to pay to the Owners of the Senior Lien Bonds the full amount of interest on or principal of all Outstanding Senior Lien Bonds then due, the Trustee shall promptly notify the Authority of such fact and thereafter, to the extent that the Authority fails to immediately cure such insufficiency with a draw from the Surplus Subaccount, the Trustee shall draw in the following order, and transfer to the Senior Lien Interest Subaccount or Senior Lien Principal Subaccount, as appropriate, an amount equal to the deficiency;

(i) the Diageo Pledged Revenue Account;

(ii) any Senior Lien Redemption Subaccount or any Second Lien Redemption Subaccount (other than amounts held therein to pay and redeem Subordinated Revenue Bonds for which notice of redemption has theretofore been given, and amounts held therein to defease Outstanding Subordinated Revenue Bonds pursuant to the Subordinated Indenture);

(iii) the Construction Account (to the extent held by the Trustee and such application is permitted by the Supplemental Subordinated Indenture governing same and the Authority certifies that such amounts are not required for payment of costs of the Diageo Project);

(iv) the Series Subaccount of the Senior Lien Debt Service Reserve Account if the payment is for principal of or interest on the related Series of Senior Lien Bonds;

(v) the Senior Lien Principal Subaccount (for deficiencies in the Senior Lien Interest Subaccount); and

(vi) the Senior Lien Interest Subaccount (for deficiencies in the Senior Lien Principal Subaccount).

(b) Deficiencies in the Senior Lien Interest Subaccount shall be fully cured prior to curing any deficiency in the Senior Lien Principal Subaccount.

Senior Lien Debt Service Reserve Account.

(a) An initial deposit to the credit of the Series Subaccount of the Senior Lien Debt Service Reserve Account is to be made by the Trustee from the proceeds of each Series of Senior Lien Bonds in an amount equal to the Debt Service Reserve Requirement (if any) for that Series established in the Supplemental Subordinated Indenture. Thereafter each Series Subaccount of the Senior Lien Debt Service Reserve Account shall be maintained at the Debt Service Reserve Requirement for the related Series by transfers to the Senior Lien Debt Service Reserve Account from the Diageo Pledged Revenue Account as provided in the Subordinated Indenture; provided, however, (i) in the event the amount on deposit in a Series Subaccount of the Senior Lien Debt Service Reserve Account is less than the Debt Service Reserve Requirement for the related Series because of a transfer required by the Subordinated Indenture, then the Authority shall be required to restore the deficiency caused thereby (1) to the extent there are any amounts on deposit in the Subordinated Surplus Account, by the transfer to the Trustee for deposit into the Series Subaccount of the Senior Lien Debt Service Reserve Account of the full amount on deposit

in the Subordinated Surplus Account or such lesser amount as will cure such deficiency in the Senior Lien Debt Service Reserve Account and, to the extent the full deficiency cannot be so cured, such amounts shall be applied ratably to each Series Subaccount within the Senior Lien Debt Service Reserve Account which has a deficiency, and (2) to the extent any deficiency remains following application as provided in the Subordinated Indenture, by transfer of Diageo Matching Fund Revenues pursuant to the Subordinated Indenture until such deficiency is remedied, and (ii) in the event the amount on deposit in the Series Subaccount of the Senior Lien Debt Service Reserve Account is less than the Debt Service Reserve Account Requirement for the related Series because of any valuation of the investment securities as determined by application of the Subordinated Indenture, the Authority shall be required to restore the deficiency caused thereby by transfers of Diageo Matching Fund Revenues pursuant to the Subordinated Indenture annually no later than the first day of the Bond Year following a determination that such deficiency exists.

(b) If on any Interest Payment Date there are not sufficient amounts on deposit in the Senior Lien Interest Subaccount to pay the total amount of interest coming due on any Senior Lien Bonds entitled to the benefit and security of a Subaccount of the Senior Lien Debt Service Reserve Account on such Interest Payment Date or if on any Principal Payment Date there are not sufficient amounts on deposit in the Senior Lien Principal Subaccount to pay the total amount of principal coming due on any Senior Lien Bonds entitled to the benefit and security of the Senior Lien Debt Service Reserve Account on such Principal Payment Date, and after making the transfers required to be made from other Accounts as provided in the Subordinated Indenture prior to a transfer from the Senior Lien Debt Service Reserve Account, the Trustee shall transfer sums on deposit in the Senior Lien Debt Service Reserve Account, as provided in the Subordinated Indenture to the Senior Lien Interest Subaccount or Senior Lien Principal Subaccount, as the case may be, in an amount sufficient to make up any such deficiency for any Senior Lien Bonds entitled to the benefit and security of the related Subaccount of the Senior Lien Debt Service Reserve Account. At the time of such transfer the Trustee shall notify the Authority of such transfer. In the event that the amounts on deposit in the Senior Lien Debt Service Reserve Account are invested in one or more investment securities, the Trustee shall comply with written directions (if any) of the Authority as to any required liquidation, sale or other disposition of any investment in connection with the provisions of this heading.

(c) All income derived from the investment of amounts on deposit in the Senior Lien Debt Service Reserve Account and any Subaccount therein shall be retained therein at all times when the amount on deposit in the Senior Lien Debt Service Reserve Account is less than the Debt Service Reserve Requirement for the Senior Lien Bonds. Whenever the moneys and Permitted Investments on deposit in the Senior Lien Debt Service Reserve Account shall be determined to exceed the Debt Service Reserve Requirement for Outstanding Senior Lien Bonds, such excess shall, subject to the Subordinated Indenture, and except as otherwise required by the Subordinated Indenture, be deposited first, to the extent that the amount transferred in the Senior Lien Debt Service Accounts and Subaccounts from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture was less than the amount required to be transferred pursuant to the Subordinated Indenture in the Debt Service Reserve Accounts and Subaccounts, then to the Construction Account until completion of construction of the Diageo Project, and then, at the written direction of the Authority any remaining amount to the Rebate Account or the Subordinated Surplus Account.

No later than 13 months preceding the final maturity date of each Series of Senior Lien Bonds, the Authority shall elect in writing whether to apply amounts in the Subaccount of the Senior Lien Debt Service Reserve Account relating to such Series to the

payment of the amount due on such final maturity date. The amount so applied shall not exceed the lesser of (1) the Senior Lien Debt Service Reserve Requirement attributable to that Series of Senior Lien Bonds, or (2) the amount actually on deposit in the Senior Lien Debt Service Reserve Account and attributable to that Series of Senior Lien Bonds. If the Authority elects to so apply amounts in the Senior Lien Debt Service Reserve Account, the amount to be so applied shall be transferred to the related Senior Lien Interest Subaccount and Senior Lien Principal Subaccount and all amounts transferred shall be credited against any amounts transferable from the Diageo Pledged Revenue Account to the related Senior Lien Interest Subaccount and Senior Lien Principal Subaccount under the Subordinated Indenture on account of the Series of Senior Lien Bonds for which the election is made.

(d) The Trustee shall purchase at the specific direction of the Authority:

(i) Permitted Investments with the moneys deposited in the Senior Lien Debt Service Reserve Account on the date of initial issuance and delivery of the Senior Lien Bonds; and

(ii) Permitted Investments from time to time upon the maturity or prior redemption of the Permitted Investments purchased pursuant to clause (i).

The investment instructions contained in the Subordinated Indenture shall at all times be subject to the requirements of the Subordinated Indenture and any further direction from the Authority to the Trustee.

(e) In the event of the refunding of any Subordinated Revenue Bonds, the Trustee shall, at the direction of the Authority, withdraw from the Senior Lien Debt Service Reserve Account or the Second Lien Debt Service Reserve Account, as applicable, all, or any portion of, the amounts accumulated therein with respect to the Subordinated Revenue Bonds being refunded and deposit such amounts with the Paying Agent as directed by the Authority to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Subordinated Revenue Bonds being refunded; provided that such withdrawal shall not be made unless (i) immediately thereafter the Subordinated Revenue Bonds being refunded shall be deemed to have been paid pursuant to the Subordinated Indenture, and (ii) the amount remaining in the Debt Service Reserve Account, after giving effect to the issuance of the refunding Subordinated Revenue Bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Requirement for all Outstanding Senior Lien Bonds.

Second Lien Debt Service Accounts and Subaccounts Therein.

(a) There shall be deposited into the Second Lien Debt Service Account all amounts required to be remitted, transferred or otherwise deposited therein as provided in the Subordinated Indenture together with such additional amounts to be deposited into various specified Subaccounts within the Second Lien Debt Service Account as described under this heading.

(b) Second Lien Interest Subaccount.

(i) There shall be deposited in each Second Lien Interest Subaccount, upon issuance of each Series of Second Lien Bonds, the amount of accrued interest received from the sale of such Subordinated Revenue Bonds and shall be deposited monthly all other amounts required by the Subordinated Indenture. If on any Interest Payment Date there are not sufficient

amounts on deposit in the Second Lien Interest Subaccount to pay the total amount of interest coming due on the Second Lien Bonds on such Interest Payment Date, the Trustee shall forthwith transfer to the Second Lien Interest Subaccount from other Accounts or Subaccounts, in the order listed in the Subordinated Indenture, an amount equal to the deficiency. Interest income derived from the investment of amounts on deposit in the Second Lien Interest Subaccount of the Second Lien Debt Service Account shall remain in such Second Lien Interest Subaccount and shall be credited against the amount next due to be transferred to such Second Lien Interest Subaccount from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture. Notwithstanding the foregoing, any Rebate Amount on deposit in such Second Lien Interest Subaccount shall be transferred to the Rebate Account at the direction of the Authority.

(ii) On each Interest Payment Date for Second Lien Bonds the Trustee shall withdraw from the Second Lien Interest Subaccount an amount sufficient to pay the interest coming due on the Second Lien Bonds on such Interest Payment Date and shall use such amounts to pay, or make provision with the Paying Agent for the payment of, interest on the Second Lien Bonds on such Interest Payment Date; provided, however, that if and to the extent payment of interest on the Second Lien Bonds, or any Series thereof or specific portion thereof, shall be made from moneys drawn under a Credit Facility, the Trustee shall transfer to the Second Lien Credit Subaccount relating to such Series of Second Lien Bonds or specific portion thereof and remit to the Credit Provider from said Subaccount in such Second Lien Credit Subaccount, on the Interest Payment Date, all moneys provided by Credit Facility proceeds or otherwise apply such moneys as provided in the related Supplemental Subordinated Indenture, Credit Agreement, a Related Agreement or Related Document.

(c) Second Lien Principal Subaccount.

(i) There shall be transferred to the Second Lien Principal Subaccount the amount required to be transferred from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture. If on any Principal Payment Date there are not sufficient amounts on deposit in the Second Lien Principal Subaccount to pay the total amount of principal coming due on the Subordinated Revenue Bonds on such Principal Payment Date, the Trustee shall forthwith transfer to the Second Lien Principal Subaccount from other Accounts, in the order listed in the Subordinated Indenture, an amount equal to the deficiency. All interest income derived from the investment of amounts on deposit in the Second Lien Principal Subaccount shall remain in the Second Lien Principal Subaccount and be credited against the amount next due to be transferred to the Second Lien Principal Subaccount from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture. Notwithstanding the foregoing, any Rebate Amount on deposit in the Second Lien Principal Subaccount shall be transferred to the Rebate Account at the direction of the Authority.

(ii) Amounts on deposit from time to time in the Second Lien Principal Subaccount shall be used on any Interest Payment Date to provide sums equal to any deficiency in the Second Lien Interest Subaccount as provided in the Subordinated Indenture.

(iii) On or before each Principal Payment Date for Second Lien Bonds, the Trustee shall withdraw from the Second Lien Principal Subaccount an amount sufficient to pay the scheduled principal coming due on the Second Lien Bonds on such Principal Payment Date, and shall use such amounts to pay, or make provision with the Paying Agents for the payment of, principal of the Subordinated Revenue Bonds on such Principal Payment Date, whether by reason of stated maturity or by reason of Mandatory Sinking Account Requirements applicable to any Term Subordinated Revenue Bonds which are Second Lien Bonds; provided, however, that if and

to the extent payment of principal coming due on the Second Lien Bonds, or any Series thereof or specific portion thereof, shall be made from moneys drawn under a Credit Facility, the Trustee shall transfer to the Subaccount within the Second Lien Credit Subaccount related to such Series of Second Lien Bonds or specific portion thereof and remit to the Credit Provider from said Subaccount within the Second Lien Credit Subaccount, on the Principal Payment Date on which payment is made, all moneys then on deposit in the Second Lien Principal Subaccount replaced by Credit Facility proceeds or otherwise apply such moneys as provided in the related Supplemental Subordinated Indenture, Credit Agreement, Related Agreement or Related Document.

(d) Second Lien Redemption Subaccount.

(i) Any amounts to be used to redeem Second Lien Bonds by the Authority shall be deposited in the Second Lien Redemption Subaccount related to such Series of Subordinated Revenue Bonds to be redeemed and applied as provided by the Supplemental Subordinated Indenture or, if no provision is made by the applicable Supplemental Subordinated Indenture, such amounts at the direction of the Authority shall be applied to purchase Second Lien Bonds to be surrendered to the Trustee as a credit against Debt Service Requirements when due or to pay the principal of and premium, if any, of the Second Lien Bonds then subject to and called for redemption.

(ii) If the Series of Second Lien Bonds to be redeemed (or any specific Second Lien Bonds within such Series) is secured by a Credit Facility, and the related Credit Facility or Credit Agreement provides that payment of principal of such Series of Second Lien Bonds (or specific Second Lien Bonds within such Series) will be made from such Credit Facility, the Trustee shall transfer to the Subaccount within the Second Lien Credit Subaccount related to such Series of Second Lien Bonds and remit to the Credit Provider from such Subaccount within the Second Lien Credit Subaccount, on the redemption date, all moneys then on deposit in the Second Lien Redemption Subaccount provided by Credit Facility proceeds.

(iii) Any funds transferred to the Second Lien Redemption Subaccount from a Construction Account as excess proceeds shall be applied only to redeem Second Lien Bonds of the Series from which such Construction Account proceeds were derived, if any such Second Lien Bonds are Outstanding. Other funds transferred to the Second Lien Redemption Subaccount shall be applied to redeem Second Lien Bonds then subject to redemption as provided in the applicable Supplemental Subordinated Indenture or, if the Supplemental Subordinated Indenture does not specifically so provide, as the Authority shall direct in writing.

(iv) All income derived from the investment of amounts on deposit in the Second Lien Redemption Subaccount shall be transferred to the Second Lien Interest Subaccount and applied as a credit against the amounts next due to be transferred to the Second Lien Interest Subaccount from the Diageo Pledged Revenue Account provided in the Subordinated Indenture. Notwithstanding the foregoing, any Rebate Amount on deposit in the Second Lien Redemption Subaccount shall be transferred to the Rebate Account at the direction of the Authority.

(v) Notwithstanding any other provisions of the Subordinated Indenture, moneys on deposit in the Second Lien Redemption Subaccount may be withdrawn therefrom only to the extent that such moneys have not theretofore been committed to the purchase or redemption of Second Lien Bonds for which proper notice has been given.

(e) Second Lien Expense Subaccount.

(i) The Trustee shall create a separate Second Lien Expense Subaccount for each Series of Second Lien Bonds with such subaccounts therein as the Authority shall from time to time provide, unless the Authority provides in a Supplemental Subordinated Indenture or otherwise directs in writing that one such Account shall relate to Second Lien Bonds of more than one Series.

(ii) The Trustee shall transfer from the Diageo Pledged Revenue Account to the Second Lien Expense Subaccount the amounts directed by the Subordinated Indenture for the payment of amounts therein specified. The Trustee may rely in good faith upon written directions of the Authority as to the amount to be transferred to the Second Lien Expense Subaccount, or disbursed therefrom to any payee. The amount disbursed from the Second Lien Expense Subaccount to the Trustee (as Trustee, Paying Agent, Subordinated Bond Registrar, or in any other capacity) shall not exceed the amount agreed to by the Authority as the compensation or in any other capacity) shall not exceed the amount agreed to by the Authority as the compensation due to the Trustee for its services. For payees other than the Trustee, the amount disbursed to any payee shall be the amount agreed to by the Authority in writing, or if no agreement exists or is applicable, in the amount directed in writing by the Authority.

(iii) All income derived from the investment of amounts on deposit in the Second Lien Expense Subaccount shall be retained therein and applied as a credit against the amounts next due to be transferred to the Second Lien Expense Subaccount from the Diageo Pledged Revenue Account as provided in the Subordinated Indenture.

(f) Purchase or Repayment of Subordinated Revenue Bonds at Request of Authority; Second Lien Purchase Subaccount.

(i) The Trustee shall deposit funds in the Second Lien Purchase Subaccount as follows and as provided in any Supplemental Subordinated Indenture:

(1) the proceeds of remarketing of Second Lien Bonds, except to the extent such proceeds are required by the terms of a Supplemental Subordinated Indenture and related Remarketing Agreement to be paid to Bondowners selling such Second Lien Bonds or to a Credit Provider which has provided the funds required to purchase Second Lien Bonds;

(2) funds provided by a Credit Provider to purchase Second Lien Bonds;

(3) other funds provided to the Trustee by the Authority or any other Person accompanied by a written direction to deposit such funds in the Second Lien Purchase Subaccount; and

(4) any other funds required to be so deposited by a Supplemental Subordinated Indenture.

(ii) Diageo Funds from time to time held in the Second Lien Purchase Subaccount shall be disbursed therefrom as provided in the related Supplemental Subordinated Indenture, or as directed in writing by the Authority, which direction may not be inconsistent with the provisions of the Subordinated Indenture or the applicable related Supplemental Subordinated Indenture.

(iii) Unless otherwise provided in the applicable Supplemental Subordinated Indenture, all income derived from the investment of amounts on deposit in the Second Lien Purchase Subaccount shall be transferred upon receipt to the Diageo Pledged Revenue Account.

(g) Second Lien Credit Subaccount.

(i) To the extent so provided in the applicable Supplemental Subordinated Indenture, the Trustee shall create a separate Second Lien Credit Subaccount within the Second Lien Debt Service Account for each Series of Second Lien Bonds (or specific Second Lien Bonds within a Series) secured by a Credit Facility. In addition, for any Credit Facility which constitutes a bond insurance policy or similar instrument pursuant to which the Credit Provider is entitled to subrogation rights as to amounts paid to Bond Owners secured thereby, the Supplemental Subordinated Indenture relating thereto may provide for payment directly to such Credit Provider of available amounts in the Second Lien Principal and Interest Subaccounts by reason of such subrogation rather than establishing a Second Lien Credit Subaccount and requiring a transfer of such amounts thereto prior to payment of such amounts to such Credit Provider.

(ii) All amounts drawn under a Credit Facility for which a Second Lien Credit Subaccount is established under this heading to pay the principal or Redemption Price of, Purchase Price of, premium, if any, and interest on, any Series of Second Lien Bonds or a specific portion thereof, shall be deposited in the related Second Lien Principal Subaccount, Second Lien Interest Subaccount, Second Lien Purchase Subaccount or other Account created under the related Supplemental Subordinated Indenture and the Trustee shall apply such amounts to the purpose for which they were drawn, as further provided in the related Supplemental Subordinated Indenture, Credit Agreement, Related Agreements or Related Documents. Promptly upon such deposit and application, the Trustee shall transfer from the appropriate Account or Subaccount to the applicable Second Lien Credit Subaccount all Diageo Matching Fund Revenues or other amounts provided by Credit Facility proceeds or such Diageo Matching Fund Revenues, or other amounts which become available by reason of the application of such Credit Facility proceeds as provided in the Supplemental Subordinated Indenture, all of which amounts shall not exceed the amounts drawn on the Credit Facility and deposited pursuant to the first sentence of this paragraph plus interest thereon at a rate which is the lesser of (1) the interest rate specified in the Credit Agreement or (2) the interest rate or rates on the Second Lien Bonds paid with the proceeds of the Credit Facility. The Trustee shall remit such amounts from the applicable Second Lien Credit Subaccount to the applicable Credit Provider as shall be provided in the related Supplemental Subordinated Indenture or Credit Agreement.

(iii) The proceeds of any Credit Facility issued in connection with and for the benefit of any Series of Second Lien Bonds (or specific Second Lien Bonds within a Series) shall be deposited as provided in this subsection and the Supplemental Subordinated Indenture for the related series of Second Lien Bonds (or specific Second Lien Bonds within a Series) and shall be transferred and/or applied solely for the benefit of the Bondowners of the Series of Subordinated Revenue Bonds (or specific Subordinated Revenue Bonds within a Series) to which the Credit Facility relates; and accordingly, the Owners of the Subordinated Revenue Bonds of any other Series shall not be entitled to the benefit of, or receive, the proceeds of a Credit Facility which does not secure the Subordinated Revenue Bonds held by Owners.

(iv) The provisions of this subsection are subject in all respects to the terms and conditions of each Credit Facility, Credit Agreement, Related Agreements, Related Documents and the related Supplemental Subordinated Indenture.

(h) Second Lien Capitalized Interest Subaccount.

Except as provided in a Supplemental Subordinated Indenture with respect to a Series of Second Lien Bonds, to the extent available therein, on each date Diageo Matching Fund Revenues are transferred pursuant to the Subordinated Indenture, the Trustee shall transfer from the Second Lien Capitalized Interest Subaccount to any related Second Lien Interest Subaccount, the amount of interest required to be transferred pursuant to the Subordinated Indenture. Each transfer shall be made on or immediately prior to the day on which the Trustee transfers or otherwise remits Diageo Matching Fund Revenues as provided in the Subordinated Indenture and shall be credited against the transfer than due from the Diageo Pledged Revenue Account. Investment income on amounts held in the Second Lien Capitalized Interest Subaccount (net of investment losses and amounts required to be transferred to the Rebate Subaccount) shall be credited to the Second Lien Capitalized Interest Subaccount.

(i) Pro Rata Payments.

In the event the amount then on deposit in the Second Lien Interest Subaccount or the Second Lien Principal Subaccount on an Interest Payment Date or Principal Payment Date is not sufficient to pay to the Owners of the Second Lien Bonds the full amount of interest on and principal of all Outstanding Second Lien Bonds then due and such deficiency cannot be cured as provided in the Subordinated Indenture, the Trustee shall nonetheless pay out all moneys on deposit in the Second Lien Interest Subaccount and Second Lien Principal Subaccount to the Persons entitled thereto, pro rata according to the amount owed to each (subject in all events to any provisions to the contrary as to Credit Facilities or other amounts which a Supplemental Subordinated Indenture may pledge or otherwise provide for under procedures by which specific Diageo Matching Fund Revenues thereunder are for the specific benefit of a Series of Second Lien Bonds or specific Second Lien Bonds within a Series).

Deficiencies in the Second Lien Interest Subaccount or Second Lien Principal Subaccount.

(a) In the event, on an Interest Payment Date or Principal Payment Date, the amount then on deposit in the Second Lien Interest Subaccount or the Second Lien Principal Subaccount is not sufficient to pay to the Owners of the Second Lien Bonds the full amount of interest on or principal of all Outstanding Second Lien Bonds then due, the Trustee shall promptly notify the Authority of such fact and thereafter, to the extent that the Authority fails to immediately cure such insufficiency with a draw from the Surplus Subaccount, the Trustee shall draw in the following order, and transfer to the Second Lien Interest Subaccount or Second Lien Principal Subaccount, as appropriate, an amount equal to the deficiency:

(i) the Diageo Pledged Revenue Account;

(ii) any Second Lien Redemption Subaccount or any Second Lien Redemption Subaccount (other than amounts held therein to pay and redeem Subordinated Revenue Bonds for which notice of redemption has theretofore been given and amounts held therein to defease Outstanding Subordinated Revenue Bonds pursuant to the Subordinated Indenture);

(iii) the Construction Account (to the extent held by the Trustee and such application is permitted by the Supplemental Subordinated Indenture governing same and the Authority certifies that such amounts are not required for payment of costs of the Diageo Project);

(iv) the Series Subaccount of the Second Lien Debt Service Reserve Account if the payment is for principal of or interest on the related Series of Second Lien Bonds;

(v) the Second Lien Principal Subaccount (for deficiencies in the Second Lien Interest Subaccount); and

(vi) the Second Lien Interest Subaccount (for deficiencies in the Second Lien Principal Subaccount).

(b) Deficiencies in the Second Lien Interest Subaccount shall be fully cured prior to curing any deficiency in the Second Lien Principal Subaccount.

Second Lien Debt Service Reserve Account.

(a) An initial deposit to the credit of the Series Subaccount of the Second Lien Debt Service Reserve Account is to be made by the Trustee from the proceeds of each Series of Second Lien Bonds in an amount equal to the Debt Service Reserve Requirement (if any) for that Series established in the Supplemental Subordinated Indenture. Thereafter each Series Subaccount of the Second Lien Debt Service Reserve Account shall be maintained at the Debt Service Reserve Requirement for the related Series by transfers to the Second Lien Debt Service Reserve Account from the Diageo Pledged Revenue Account as provided in the Subordinated Indenture; provided, however, (i) in the event the amount on deposit in a Series Subaccount of the Second Lien Debt Service Reserve Account is less than the Debt Service Reserve Requirement for the related Series because of a transfer required by the Subordinated Indenture, then the Authority shall be required to restore the deficiency caused thereby (1) to the extent there are any amounts on deposit in the Subordinated Surplus Account, by the transfer to the Trustee for deposit into the Series Subaccount of the Second Lien Debt Service Reserve Account of the full amount on deposit in the Subordinated Surplus Account or such lesser amount as will cure such deficiency in the Second Lien Debt Service Reserve Account and, to the extent the full deficiency cannot be so cured, such amounts shall be applied ratably to each Series Subaccount within the Second Lien Debt Service Reserve Account which has a deficiency, and (2) to the extent any deficiency remains following application as provided in the Subordinated Indenture, by transfer of Diageo Matching Fund Revenues pursuant to the Subordinated Indenture until such deficiency is remedied, and (ii) in the event the amount on deposit in the Series Subaccount of the Second Lien Debt Service Reserve Account is less than the Debt Service Reserve Account Requirement for the related Series because of any valuation of the investment securities as determined by application of the Subordinated Indenture, the Authority shall be required to restore the deficiency caused thereby by transfers of Diageo Matching Fund Revenues pursuant to the Subordinated Indenture annually not later than the first day of the Bond Year following a determination that such deficiency exists.

(b) If on any Interest Payment Date there are not sufficient amounts on deposit in the Second Lien Interest Subaccount to pay the total amount of interest coming due on any Second Lien Bonds entitled to the benefit and security of a Subaccount of the Second Lien Debt Service Reserve Account on such Interest Payment Date or if on any Principal Payment Date there are not sufficient amounts on deposit in the Second Lien Principal Subaccount to pay the total amount of principal coming due on any Second Lien Bonds entitled to the benefit and security of the Second Lien Debt Service Reserve Account on such Principal Payment Date, and after making the transfers required to be made from other Accounts as provided in the Subordinated Indenture prior to a transfer from the Second Lien Debt Service Reserve Account, the Trustee shall transfer sums on deposit in the Second Lien Debt Service Reserve Account, as

provided in the Subordinated Indenture to the Second Lien Interest Subaccount or Second Lien Principal Subaccount, as the case may be, in an amount sufficient to make up any such deficiency for any Second Lien Bonds entitled to the benefit and security of the related Subaccount of the Second Lien Debt Service Reserve Account. At the time of such transfer the Trustee shall notify the Authority of such transfer. In the event that the amounts on deposit in the Second Lien Debt Service Reserve Account are invested in one or more investment securities, the Trustee shall comply with written directions (if any) of the Authority as to any required liquidation, sale or other disposition of any investment in connection with the provisions of the Subordinated Indenture.

(c) All income derived from the investment of amounts on deposit in the Second Lien Debt Service Reserve Account and any Subaccount therein shall be retained therein at all times when the amount on deposit in the Second Lien Debt Service Reserve Account is less than the Second Lien Debt Service Reserve Requirement for the Second Lien Bonds. Whenever the moneys and Permitted Investments on deposit in the Second Lien Debt Service Reserve Account shall be determined to exceed the Second Lien Debt Service Reserve Requirement for all Outstanding Second Lien Bonds, such excess shall, subject to the Subordinated Indenture, and except as otherwise required by the Subordinated Indenture, be deposited first, to the extent that the amount transferred in the Second Lien Debt Service Accounts and Subaccounts from the Diageo Pledged Revenue Account pursuant to the Subordinated Indenture was less than the amount required to be transferred pursuant to the Subordinated Indenture in the Second Lien Debt Service Accounts and Subaccounts, then to the Construction Account until completion of construction of the Diageo Project, and then at the written direction of the Authority any remaining amount to the Rebate Fund or the Surplus Fund.

No later than 13 months preceding the final maturity date of each Series of Second Lien Bonds, the Authority shall elect in writing whether to apply amounts in the Subaccount of the Second Lien Debt Service Reserve Account relating to such Series to the payment of the amount due on such final maturity date. The amount so applied shall not exceed the lesser of (1) the Second Lien Debt Service Reserve Requirement attributable to that Series of Second Lien Bonds, or (2) the amount actually on deposit in the Second Lien Debt Service Reserve Account and attributable to that Series of Second Lien Bonds. If the Authority elects to so apply amounts in the Second Lien Debt Service Reserve Account, the amount to be so applied shall be transferred to the related Second Lien Interest Subaccount and Second Lien Principal Subaccount and each amount transferred shall be credited against the amounts transferable from the Diageo Pledged Revenue Account to the related Second Lien Interest Subaccount and Second Lien Principal Subaccount under the Subordinated Indenture on account of the Series of Second Lien Bonds for which the election is made.

Cost of Issuance Account.

(a) The Trustee may establish within the Cost of Issuance Account separate, segregated accounts for the benefit of one or more Series of Subordinated Revenue Bonds as provided in the Supplemental Subordinated Indenture creating such Series of Subordinated Revenue Bonds. There shall be deposited in the Cost of Issuance Account, from the proceeds of each Series of Subordinated Revenue Bonds, the amount specified pursuant to the Supplemental Subordinated Indenture creating such account.

(b) Amounts from time to time on deposit in the Cost of Issuance Account shall be disbursed to or upon the order of the Authority to pay the Costs of Issuance of a Series of Subordinated Revenue Bonds.

(c) The Trustee shall disburse funds from the Cost of Issuance Account upon receipt from the Authority of a requisition or certificate in form satisfactory to the Trustee specifying the amount to be disbursed, the payee of each such amount, and the purpose of each such payment.

(d) On the date which is 180 days following the date of the issuance of each Series of Subordinated Revenue Bonds, any funds remaining in the Cost of Issuance Account deposited from or on account of such Series of Subordinated Revenue Bonds shall be transferred to the related subaccount in the Construction Account, except that the Authority may, by certificate delivered to the Trustee on or before such 180th day, direct such transfer earlier than such date, or direct the Trustee to retain moneys in the Cost of Issuance Account after such date, or (if the moneys are not derived from the proceeds of the applicable Series of Subordinated Revenue Bonds) direct transfer to a Person or Account other than the Construction Account or the related Account therein.

Rebate Account.

(a) Moneys deposited and held in the Rebate Account shall not be subject to the lien or pledge of the Subordinated Indenture.

(b) If, at the time of any calculation, the amount on deposit in the Rebate Account attributable to a specific Series of Tax-Exempt Subordinated Revenue Bonds exceeds the Rebate Amount for such Series of Tax-Exempt Subordinated Revenue Bonds, the Trustee shall transfer the excess to the Diageo Pledged Revenue Account.

(c) If the Trustee does not have on deposit in the Rebate Account sufficient amounts to make the payments required by the Subordinated Indenture, the Trustee shall direct the Authority to remit to the Trustee, in immediately available funds, within five Business Days, the amount of the deficiency.

(d) Investment earnings on amounts held in the Rebate Account shall be credited to the Rebate Account upon receipt.

Government Account.

There shall be paid into the Government Account the amounts certified by the Calculation Agent as the amount required to be so paid in accordance with the terms of the Diageo Agreement, the Subordinated Indenture and each Supplemental Subordinated Indenture, subject to any adjustments, as appropriate in accordance with the Diageo Agreement.

Communities Facilities Trust Account.

(a) There shall be paid into the Communities Facilities Trust Account the amounts certified by the Calculation Agent as the amount required to be so paid by the provisions of the Diageo Agreement, the Subordinated Indenture and each Supplemental Subordinated Indenture.

(b) Separate, segregated Subaccounts may be created within the Communities Facilities Trust Account and held by the Authority, the Trustee or other entity in the manner provided in any Supplemental Subordinated Indenture authorizing such Subaccounts.

Money held in such Subaccounts shall be held separately from other moneys in the Communities Facilities Trust Account and shall be disposed of at the written direction of the Authority.

(c) Amounts in the Communities Facilities Trust Account shall be used in accordance with the written direction of the Authority, as recommended by the Governor with the approval of the Legislature.

Surplus Receipts Account. There shall be paid into the Surplus Receipts Account the amount certified by the Calculation Agent as the amount required to be so paid by the provisions of the Diageo Agreement, the Subordinated Indenture and any applicable Supplemental Subordinated Indenture.

Surplus Account. Moneys held in the Subordinated Surplus Account may be used: (a) for transfers to the Debt Service Reserve Accounts and Debt Service Reserve Accounts to maintain the required balances therein if no other funds are available for such purposes, and (b) for any other purpose, in each case as directed by the Authority, authorized by law.

Semi-Annual Report by Trustee. Within fifteen (15) days after the end of each February and August, the Trustee shall prepare a written report for each Account held by it under the provisions of the Subordinated Indenture. Such report shall set out the receipts and disbursements, both principal and income, and shall list the investments held at the end of the month. A copy of each such report shall be furnished to the Authority.

In addition, the Trustee shall, at any time when requested, furnish to the Authority a report of the amount of moneys, including investments held in the Cost of Issuance Account, Debt Service Reserve Accounts, and any other Account and Subaccount held by the Trustee on that date. For purposes of this report, the investments in each Account and Subaccount shall be treated as having a value equal to the lower of their aggregate cost or their aggregate market value as of the date of the request.

Deposit of Diageo Funds with Paying Agent.

(a) The Trustee shall transfer and remit sums from the Debt Service Reserve Accounts to the Paying Agent in advance of each Payment Date sufficient to pay all principal, interest and redemption premiums then due on Subordinated Revenue Bonds. The Paying Agent shall hold in trust for the Owners of such Subordinated Revenue Bonds all sums so transferred until paid to such Owners or otherwise disposed of as provided in the Subordinated Indenture. If the Paying Agent is other than the Trustee, the Trustee shall designate each such transfer by the Series designation of the Series of Subordinated Revenue Bonds to which it relates, and the moneys so received by the Paying Agent shall be held in trust only for the Owners of the Subordinated Revenue Bonds of the designated Series.

(b) Interest on each Subordinated Bond including accrued interest to the date of deposit and interest, to the extent permitted by law, on overdue installments of interest at the rate borne by such Bond, (i) shall cease on its maturity date, or on any prior redemption date, provided that funds sufficient for the payment thereof with accrued interest and any redemption premium have been deposited with the Paying Agent on or before the maturity date or redemption date, as the case may be, and in the case of redemption, that the requirements of the applicable Supplemental Subordinated Indenture have been complied with, or (ii) shall cease on any date after maturity or a redemption date on which such deposit has been made, and the Owner shall

have no further rights with respect to the Subordinated Revenue Bonds or under the Subordinated Indenture except to receive the payment so deposited.

(c) If any Subordinated Bond is not presented for payment when due and funds sufficient to pay such Bond shall have been paid to the Trustee (or other Paying Agent, if any): (1) all liability of the Authority for payment of such Bond shall forthwith cease, (ii) such Bond shall forthwith cease to be entitled to any lien, benefit or security under the Subordinated Indenture and the Owner of such Bond shall forthwith have no rights in respect thereof except to receive payment thereof, and (iii) the Trustee (or other Paying Agent, if any) shall hold such funds, without liability for interest thereon, for the benefit of the Owner of such Bond. Subject to the applicable unclaimed property laws of the Virgin Islands, any moneys still held by the Trustee (or other Paying Agent, if any) after two years from the date on which the Subordinated Bond with respect to which such amount was paid to the Trustee (or other Paying Agent, if any), shall, if and to the extent permitted by law, be paid by the Trustee (or other Paying Agent, if any) to the Authority, and the Trustee shall thereupon be discharged from the trust and all ability of the Paying Agent or the Trustee with respect to such trust money; and the Bondowners shall thereafter be entitled to look only to the Authority for payment, and the Authority shall not be liable for any interest thereon.

(d) If there is any Paying Agent who is not the Trustee, the Trustee will cause such Paying Agent to execute and deliver to it an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this heading, that such Paying Agent will:

(i) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Subordinated Revenue Bonds in trust for the benefit of the Owners of such Subordinated Revenue Bonds until such sums shall be paid to such Owners or otherwise disposed of as provided in the Subordinated Indenture; and

(ii) at any time during the continuance of any default in the making of any such payment if principal (and premium, if any) or interest, upon the written request of the Trustee forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Trustee, acting as Paying Agent, shall also be bound by the terms of the foregoing requirements.

Investments. So long as the Subordinated Revenue Bonds are Outstanding and no Event of Default (as defined in the Subordinated Indenture) has occurred and is continuing, moneys on deposit to the credit of the Construction Account, the Diageo Pledged Revenue Account, any Debt Service Account and any Debt Service Reserve Account shall at the written request of an Authorized Officer be invested in accordance with such request confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested in accordance with such request by the Trustee in Permitted Investments, and moneys held in the Rebate Fund shall, at the written request of an Authorized Officer, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested in accordance with such request by the Trustee in the Permitted Investments described in subparagraph (i) of the definition thereof. The Trustee is entitled to rely on said instructions for purposes of this heading.

Valuation and Sale of Investments.

(a) Permitted Investments and any interest earned thereon purchased as an investment of moneys in the Diageo Pledged Revenue Account, in the Construction Account, in any Debt Service Account or in any Debt Service Reserve Account shall be deemed at all times to be a part of such Account and any profit realized from the liquidation of such investment shall be credited to such Account and any loss resulting from the liquidation of such investment shall be charged to such Account.

(b) In computing the amount in any Account created under the provisions of the Subordinated Indenture or any Supplemental Subordinated Indenture for any purpose provided in the Subordinated Indenture or Supplemental Subordinated Indenture, obligations purchased as an investment of moneys therein shall be valued at the lower of their cost or market value thereof, exclusive of accrued interest. The valuation of any Debt Service Reserve Account shall be made as of the close of business on September 1 in each year, commencing September 1, 2009, and, at such other times as the Authority shall direct in writing and, in addition, shall be valued at the time of any withdrawal from any Debt Service Reserve Account pursuant to the Subordinated Indenture.

(c) The Trustee shall sell or provide for the sale at the best price then reasonably obtainable by the Trustee at that point in time, or present for redemption, any Permitted Investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Account. Except in the case of a determination of its own gross negligence or willful misconduct, the Trustee shall not be liable or responsible for making any such sale or redemption in the manner provided above and shall in no event be liable for any loss resulting from any such sale or redemption. The Trustee shall not be liable or responsible for making any such investment in the manner provided in the Subordinated Indenture or for any loss resulting from any such investment.

(d) Investments in the various Accounts may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions in the Subordinated Indenture for transfer to or holding in particular Accounts or Subaccounts amounts received or held by the Trustee, provided that the Trustee shall at all times account for such investments strictly in accordance with the Accounts or Subaccounts to which they are credited and otherwise as provided in the Subordinated Indenture.

(e) Notwithstanding any other provision in the Subordinated Indenture, the Trustee shall be guided by the provisions of the Subordinated Indenture whenever it is necessary to determine the method and timing of the valuation of an Account or Subaccount under the Subordinated Indenture.

Events of Default. In case one or more of the following events, in the Subordinated Indenture referred to as the “Events of Default,” shall happen and be continuing, that is to say, if

(a) payment of interest on any Series of Subordinated Revenue Bonds shall not be made when the same shall become due and payable; or

(b) payment of the principal or Redemption Price of any Series of Subordinated Revenue Bonds or of a Sinking Fund Installment shall not be made when the same shall become due and payable; or

(c) the Authority shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in any Subordinated Revenue Bonds or in the Subordinated Indenture or any Supplemental Subordinated Indenture on the part of the Authority to be performed other than those set forth in the Subordinated Indenture, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the Trustee, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of any Outstanding Subordinated Revenue Bonds; provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected and an Authorized Officer of the Authority has delivered to the Trustee a certificate to that effect; or

(d) an “Event of Default” as such term is defined in any Loan Agreement; or

(e) the occurrence of an Act of Bankruptcy by the Authority;

provided, however, that in no event shall an Event of Default with respect to any Second Lien Bonds cause an Event of Default with respect to any Senior Lien Bonds.

Proceedings by Trustee.

(a) Upon the happening and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of the Owners of not less than 25% in aggregate principal amount of any Series of Subordinated Revenue Bonds Outstanding shall, do the following:

(i) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of Subordinated Revenue Bonds, and to require the Authority to carry out any other covenant or agreement with Owners of Subordinated Revenue Bonds and to perform its duties under the Subordinated Indenture;

(ii) bring suit upon the Subordinated Revenue Bonds;

(iii) by action or suit in equity to require the Authority to account as if it were the trustee of an express trust, or to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(iv) as a matter of right, have a receiver or receivers appointed for the Diageo Trust Estate and of the Diageo Matching Fund Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

(b) Upon the occurrence of an Event of Default under any Related Document, the Trustee also may enforce any and all rights or obligations of the Trustee thereunder.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason, or

shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Owners shall be restored to their former positions and rights under the Subordinated Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Rights of Owners. Anything in the Subordinated Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners in the Subordinated Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than twenty-five percent (25%) in aggregate principal amount of any Series of Subordinated Revenue Bonds then Outstanding shall have the right, upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Subordinated Indenture.

The Trustee may refuse to follow any direction that conflicts with law, the Subordinated Indenture or any Supplemental Subordinated Indenture or would subject the Trustee to liability without adequate indemnification therefor.

Restriction on Action By Owners. In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Subordinated Indenture, no Owner of any of the Subordinated Revenue Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Subordinated Indenture, or any other remedy under the Subordinated Indenture or on said Subordinated Revenue Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as hereinabove provided and unless the Owners of not less than twenty-five percent (25%) in aggregate principal amount of any Series of Subordinated Revenue Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Subordinated Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Subordinated Indenture or for any other remedy under the Subordinated Indenture or Supplemental Subordinated Indenture; it being understood and intended that no one or more Owners of any Series of Subordinated Revenue Bonds secured by the Subordinated Indenture shall have any right in any manner whatever by his, its or their action to affect, disturb or prejudice the security of the Subordinated Indenture, or to enforce any right under the Subordinated Indenture or under the Subordinated Revenue Bonds, except in the manner in the Subordinated Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Subordinated Indenture or Supplemental Subordinated Indenture provided, and for the equal benefit of all Owners of Outstanding Subordinated Revenue Bonds; subject, however, to the provisions of the heading. Notwithstanding the foregoing provisions of the Subordinated Indenture or any other provision of the Subordinated Indenture, the obligation of the Authority shall be absolute and unconditional to pay, but solely from the Diageo Trust Estate, the principal and Redemption Price, of, and interest on, any Series of Subordinated Revenue Bonds to the respective Owners thereof at the respective

due dates thereof, and nothing in the Subordinated Indenture shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Power of Trustee to Enforce. All rights of action under the Subordinated Indenture, any Supplemental Subordinated Indenture or under any Series of Subordinated Revenue Bonds secured by the Subordinated Indenture or Supplemental Subordinated Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Subordinated Revenue Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceedings instituted by the Trustee shall be brought in its own name, as trustee, for the equal and ratable benefit of the Owners of the Subordinated Revenue Bonds subject to the provisions of the Subordinated Indenture.

Remedies Not Exclusive. No remedy in the Subordinated Indenture or any Supplemental Subordinated Indenture conferred upon or reserved to the Trustee or to the Owners of the Subordinated Revenue Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given under the Subordinated Indenture or any Supplemental Subordinated Indenture existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver.

(a) The Trustee may waive any Event of Default under the Subordinated Indenture and its consequences, and shall in any event do so, upon the written request of the Owners of at least a majority in aggregate principal amount of all Outstanding Subordinated Revenue Bonds, provided, however, that there shall not be waived (i) any Event of Default pertaining to the payment of the principal of any Subordinated Bond at its maturity date or redemption date prior to maturity, or (ii) any Event of Default pertaining to the payment when due of the interest on any Subordinated Bond, unless prior to such waiver or rescission, all arrears of principal (due otherwise than by declaration) and interest, with interest (to the extent permitted by law) at the rate per annum borne by the Subordinated Revenue Bonds in respect of which such Event of Default shall have occurred on overdue installments of interest, and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such Event of Default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall be discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the Bondowners shall be restored to their former positions and rights under the Subordinated Indenture.

(b) The Trustee shall not have any discretion to waive any Event of Default except in the manner and subject to the terms expressed hereinabove.

(c) If any Event of Default shall have been waived as provided in the Subordinated Indenture, the Trustee shall promptly give written notice of such waiver to the Authority and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Subordinated Revenue Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

No delay or omission of the Trustee or of any Owner of the Subordinated Revenue Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or

Event of Default, or an acquiescence therein; and every power and remedy given by the Subordinated Indenture to the Trustee and to the Owners of the Subordinated Revenue Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Priority of Payment and Application of Moneys. All Senior Lien Bonds issued under the Subordinated Indenture and secured by the Subordinated Indenture shall be equally and ratably secured by and payable from the Senior Lien Debt Service Account without priority of one Senior Lien Bond over any other, except as otherwise expressly provided (a) in the Subordinated Indenture with respect to Senior Lien Bonds of a specific Series (or specific Senior Lien Bonds within a Series) secured by a Credit Facility or (b) in a Supplemental Subordinated Indenture or (c) with respect to moneys or assets whether or not held in the Senior Lien Debt Service Account pledged to secure one or more Series of Senior Lien Bonds (or specific Senior Lien Bonds within a Series) and not other Subordinated Revenue Bonds. All Second Lien Bonds issued under the Subordinated Indenture and secured by the Subordinated Indenture shall be equally and ratably secured by and payable from the Second Lien Debt Service Account without priority of one Second Lien Bond over any other except as otherwise expressly provided (i) in the Subordinated Indenture with respect to Second Lien Bonds of a specific Series (or specific Second Lien Bonds within a Series) secured by a Credit Facility or (ii) in a Supplemental Subordinated Indenture or (iii) with respect to moneys or assets whether or not held in the Second Lien Debt Service Account pledged to secure one or more Series of Second Lien Bonds (or specific Second Lien Bonds within a Series) and not other Subordinated Revenue Bonds. Upon the occurrence of an Event of Default, all moneys collected pursuant to action taken pursuant to remedies under the Subordinated Indenture of the Trustee or the Bondowners, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and after any other prior application of such moneys has been made as is required by law, shall be deposited in such Account, Accounts, Subaccount or Subaccounts described in the Subordinated Indenture as the Trustee deems appropriate; and all moneys in the Debt Service Reserve Accounts (and at the discretion of the Trustee except when otherwise required under the Subordinated Indenture, any other Account described in the Subordinated Indenture), excluding however (1) any moneys held in trust for the payment of any Subordinated Revenue Bonds or interest thereon which have matured or otherwise become payable prior to such Event of Default, (2) any moneys (such as Credit Facility proceeds) pledged exclusively to secure one or more specific Series of Subordinated Revenue Bonds (or specific Subordinated Revenue Bonds within a Series) shall be applied as provided as follows and (3) moneys in the Senior Lien Debt Service Account and Senior Lien Debt Service Reserve Account shall be applied solely to payment of Senior Lien Bonds and moneys in the Second Lien Debt Service account and Second Lien Debt Service Reserve Account shall be applied solely to payment of Second Lien Bonds.

Unless the principal of Subordinated Revenue Bonds shall have become due and payable, all such moneys in the respective Accounts and Subaccounts securing such obligations shall be applied consistent with the respective priorities of liens and the respective purposes for such accounts each as follows:

FIRST: To the payment of the Persons entitled thereto of all installments of interest then due on the Senior Lien Bonds in the order of the maturity of the installments of such interest and if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege;

SECOND: To the payment of the Persons entitled thereto of the unpaid principal of and redemption premium, if any, on any of the Senior Lien Bonds which shall have become due (other than Senior Lien Bonds which have matured or have otherwise become payable prior to such Event of Default and moneys for payment of which are held in trust pursuant to the provisions of the Subordinated Indenture) in the order of their due dates and if the amount available shall not be sufficient to pay in full the unpaid principal and redemption premium, if any, on Senior Lien Bonds due on any particular due date, then to the payment ratably, according to the amount of principal and premium, if any, due on such date, to the Persons entitled thereto, without any discrimination or privilege; and

THIRD: To the payment of interest on and the principal of the Senior Lien Bonds as thereafter may from time to time become due, all in accordance with the provisions of the Subordinated Indenture; and

FOURTH: To the payment of the Persons entitled thereto of all installments of interest then due on the Second Lien Bonds in the order of the maturity of the installments of such interest and if the amount available shall not be sufficient to pay in full any particular installment then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege;

FIFTH: To the payment of the Persons entitled thereto of the unpaid principal of and redemption premium, if any, on any of the Second Lien Bonds which shall have become due (other than Second Lien Bonds which have matured or have otherwise become payable prior to such Event of Default and moneys for payment of which are held in trust pursuant to the provisions of the Subordinated Indenture) in the order of their due dates and if the amount available shall not be sufficient to pay in full the unpaid principal and redemption premium, if any, on Second Lien Bonds due on any particular due date then to the payment ratably according to the amount of principal and premium, if any, due on such date to the Persons entitled thereto without any discrimination or privilege; and

SIXTH: To the payment of interest and premium, if any, on and the principal of the Second Lien Bonds and to the redemption of such Second Lien Bonds, as thereafter may from time to time become due all in accordance with the provisions of the Subordinated Indenture; and

SEVENTH: To reimburse the Trustee for any and all amounts owing the Trustee under the Subordinated Indenture.

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Subordinated Indenture and no implied duties or obligations shall be read into the Subordinated Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Subordinated Indenture, and use the same degree of care and skill in their exercise as a prudent individual would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision in the Subordinated Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Subordinated Indenture if it shall have reasonable grounds for believing

that repayment of such funds or adequate indemnity against such risk or liability is not assured to it. The Trustee shall not be liable for any error of judgment made in good faith by an officer of its corporate trust department unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) In accepting the trust created by the Subordinated Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Subordinated Revenue Bonds.

(d) The Trustee makes no representation or warranty, express or implied, as to the compliance with legal requirements of the use contemplated by the Authority of the funds under the Subordinated Indenture or any Supplemental Subordinated Indenture. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Subordinated Indenture or any Supplemental Subordinated Indenture.

(e) The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the remedies. The Trustee shall have no responsibility in respect of the validity or sufficiency of the Subordinated Indenture or any Supplemental Subordinated Indenture or the security provided under the Subordinated Indenture or the due execution by the Authority, or the due execution of any other document by any party (other than the Trustee) thereto, or in respect of the validity of any Subordinated Revenue Bonds authenticated and delivered by the Trustee in accordance with the Subordinated Indenture or to see to the recording or filing (but not refiling) of the Subordinated Indenture, any Supplemental Subordinated Indenture or any financing statement or any other document or instrument whatsoever.

(f) The Trustee shall not be deemed to have knowledge of any Event of Default under the Subordinated Indenture unless and until a Responsible Officer of its corporate trust department shall have actual knowledge thereof.

(g) The Trustee shall not be liable or responsible because of the failure of the Authority to perform any act required of it by the Subordinated Indenture or any Supplemental Subordinated Indenture or because of the loss of any moneys arising through the insolvency or the act or default or omission of any depository other than itself in which such moneys shall have been deposited under the Subordinated Indenture or any Supplemental Subordinated Indenture. The Trustee shall not be responsible for the application of any of the proceeds of the Subordinated Revenue Bonds or any other moneys deposited with it and paid out, invested, withdrawn or transferred in accordance with the Subordinated Indenture or for any loss resulting from any such investment. The Trustee shall not be liable in connection with the performance of its duties under the Subordinated Indenture except for its own willful misconduct, negligence or bad faith. The immunities and exemptions from liability of the Trustee shall extend to its directors, officers, employees and agents.

(h) The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Subordinated Indenture and shall not be answerable for the misconduct of such attorney, agent or receiver selected by it with reasonable care.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in aggregate principal amount of the Outstanding Subordinated Revenue Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the

Trustee or any trust or power conferred upon the Trustee under the Subordinated Indenture or any Supplemental Subordinated Indenture.

(j) In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations under the Subordinated Indenture arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(k) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities under the Subordinated Indenture, and each agent, custodian and other Person employed to act under the Subordinated Indenture.

(l) When the Trustee incurs expenses or renders services in connection with an Event of Default specified in the Subordinated Indenture, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or state bankruptcy, insolvency or other similar law.

Removal, Resignation of Trustee, Successor Trustee.

(a) The Authority in its sole discretion may remove the Trustee without cause at any time if no Event of Default has occurred and is continuing and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Subordinated Revenue Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (d) of this heading, or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(b) The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Subordinated Bond Register. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(c) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, or any Owner (on behalf of himself and all other Owners) may at the expense of the Authority petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Subordinated Indenture shall

signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Subordinated Indenture; but, nevertheless, at the written request of the Authority or of the successor Trustee, such predecessor Trustee shall upon payment of its charges execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Subordinated Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Subordinated Indenture. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Any such successor Trustee shall promptly notify each Paying Agent of its appointment as Trustee. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts under the Subordinated Indenture by first class mail, postage prepaid, to the Owners at their addresses listed in the Subordinated Bond Register.

(d) Any Trustee appointed under the provisions of this heading shall be a trust company or bank having the powers of a trust company, having a corporate trust office in the United States, having a combined capital and surplus of at least one hundred million dollars (\$100,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (d), the Trustee shall resign immediately in the manner and with the effect specified in this heading.

Merger or Consolidation. Any company into which the Trustee or any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or any Paying Agent may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Subordinated Indenture in the case of the Trustee or a Paying Agent, may succeed to the rights and obligations of such Trustee or Paying Agent, as the case may be, without the execution or filing of any paper or any further act, anything in the Subordinated Indenture to the contrary notwithstanding; provided that upon the sale or transfer of corporate trust business as a result of such merger or consolidation, so long as no Event of Default has occurred and is continuing, the Authority may by an instrument in writing appoint a successor Trustee or Paying Agent other than the company resulting from such merger, conversion or consolidation by the Trustee or the Paying Agent.

Liability of Diageo Fiduciaries. The recitals of facts in the Subordinated Indenture, in any Supplemental Subordinated Indenture and in the Subordinated Revenue Bonds contained shall be taken as statements of the Authority, and neither the Trustee nor any Paying Agent assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Subordinated Indenture, any Supplemental Subordinated Indenture

or of the Subordinated Revenue Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations therein or in the Subordinated Revenue Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Subordinated Revenue Bonds. Neither the Trustee nor any Paying Agent shall be liable in connection with the performance of its duties under the Subordinated Indenture, except for its own negligence or default. The Trustee or any Paying Agent may become the Owner of Subordinated Revenue Bonds with the same rights they would have if they were not Trustee or Paying Agent, respectively, and, to the extent permitted by law, may act as depository for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Subordinated Revenue Bonds then Outstanding.

Right to Indemnification. The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Subordinated Indenture, or to enter any appearance in or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created by the Subordinated Indenture or in the enforcement of any rights and powers under the Subordinated Indenture, until it shall be indemnified to its reasonable satisfaction against any and all costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct, negligence or bad faith.

Effective Without Consent of Bondowners. For any one or more of the following purposes and at any time or from time to time, a Supplemental Subordinated Indenture of the Authority may be entered into, which, without the requirement of consent of Bondowners, shall be fully effective in accordance with its terms:

(a) To provide for the issuance of a Series of Subordinated Revenue Bonds and to prescribe the terms and conditions pursuant to which the same may be issued, paid or redeemed; provided, however, that such Supplemental Subordinated Indenture shall not conflict with the Subordinated Indenture as theretofore in effect;

(b) To add to the covenants and agreements of the Authority in the Subordinated Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Subordinated Indenture as theretofore in effect;

(c) To add to the limitations and restrictions in the Subordinated Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Subordinated Indenture as theretofore in effect;

(d) To confirm, as further assurances, any pledge under, and the subjection to any lien or pledge created or to be created by, the Subordinated Indenture, of any moneys, securities or fund, or to establish any additional funds, accounts or subaccounts to be held under the Subordinated Indenture;

(e) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Subordinated Indenture;

(f) To insert such provisions clarifying matters or questions arising under the Subordinated Indenture as are necessary or desirable and are not contrary to or inconsistent with the Subordinated Indenture as theretofore in effect;

(g) To modify the Subordinated Indenture or the Subordinated Revenue Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar Federal statute at the time in effect, or to permit the qualification of the Subordinated Revenue Bonds for sale under the securities laws of any state of the United States;

(h) To make such changes as may be necessary to obtain an investment grade rating or to maintain or upgrade any rating for all or any Series of Subordinated Revenue Bonds by a Rating Agency;

(i) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(j) To subject to the lien and pledge of the Subordinated Indenture additional revenue, properties or collateral;

(k) To evidence the appointment of a separate trustee or a co-trustee or the successor of a Trustee and/or Paying Agent under the Subordinated Indenture;

(l) To modify, eliminate and/or add to the provisions of the Subordinated Indenture to such extent as shall be necessary to prevent any interest on Tax-Exempt Subordinated Revenue Bonds from becoming taxable under the Code; or

(m) To make any other change which in the judgment of the Authority and the Trustee is necessary or desirable and will not materially prejudice any non-consenting owner of a Subordinated Bond.

Effective With Consent of Bondowners. Any modification or amendment of the Subordinated Indenture and of the rights and obligations of the Authority and of the Owners of the Subordinated Revenue Bonds thereunder, in any particular, may be made by a Supplemental Subordinated Indenture, with the written consent (a) of the Owners of at least fifty-one percent (51%) in aggregate principal amount of the Subordinated Revenue Bonds Outstanding at the time such consent is given, and (b) in the case less than all of the several Series of Subordinated Revenue Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in aggregate principal amount of the Subordinated Revenue Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Subordinated Revenue Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Subordinated Revenue Bonds shall not be required and such Subordinated Revenue Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Subordinated Revenue Bonds under this heading. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Subordinated Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price, if any, thereof, or in the rate of interest thereon without the consent of the Owners of such Bond, or shall reduce the percentages or otherwise affect the classes of Subordinated Revenue Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondowners. For the purposes of this heading, a Series shall be deemed to be affected by a modification or amendment of the

Subordinated Indenture if the same adversely affects or diminishes the rights of the Owners of Subordinated Revenue Bonds of such Series.

Consent of Bondowners. The Authority may at any time adopt a Supplemental Subordinated Indenture making a modification or amendment permitted by the provisions of the Subordinated Indenture, to take effect when and as provided in this heading. A copy of such Supplemental Subordinated Indenture, together with a request to Bondowners for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Authority to Bondowners (but failure to mail such copy and request shall not affect the validity of the Supplemental Subordinated Indenture when consented to as in this heading provided). Such Supplemental Subordinated Indenture shall not be effective unless and until (a) there shall have been filed with the Trustee (i) the written consents of Owners of the percentages of Outstanding Subordinated Revenue Bonds specified in the Subordinated Indenture and (ii) a Counsel's Opinion stating that such Supplemental Subordinated Indenture has been duly and lawfully adopted by the Board in accordance with the provisions of the Subordinated Indenture, is authorized or permitted by the Subordinated Indenture, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (b) a notice shall have been given as provided in the Subordinated Indenture. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Subordinated Revenue Bonds with respect to which such consent is given, which proof shall be such as is permitted by the Subordinated Indenture. A certificate or certificates executed by the Trustee and filed with the Trustee stating that it has examined such proof and that such proof is sufficient in accordance with the Subordinated Indenture shall be conclusive that the consents have been given by the Owners of the Subordinated Revenue Bonds described in such certificate or certificates of the Trustee. Any such consent shall be irrevocable and binding upon the Owner of the Subordinated Revenue Bonds giving such consent and, anything in the Subordinated Indenture to the contrary notwithstanding, upon any subsequent Owner of such Subordinated Revenue Bonds and of any Subordinated Revenue Bonds issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof). Any time after the Owners of the required percentages of Subordinated Revenue Bonds shall have filed their consents to the Supplemental Subordinated Indenture, the Trustee shall make and file with the Authority and the Trustee a written statement that the Owners of such required percentages of Subordinated Revenue Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Subordinated Indenture (which may be referred to as a Supplemental Subordinated Indenture executed by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Owners of the required percentages of Subordinated Revenue Bonds and will be effective as provided in the Subordinated Indenture, may be given to Bondowners by the Authority by mailing such notice to Bondowners (but failure to mail such notice shall not prevent such Supplemental Subordinated Indenture from becoming effective and binding as in the Subordinated Indenture). The Authority shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by the Subordinated Indenture to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Subordinated Indenture making such amendment or modification shall be deemed conclusively binding upon the Authority, the Diageo Fiduciaries and the Owners of all Subordinated Revenue Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Subordinated Indenture in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the Authority during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their

absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Subordinated Indenture as they may deem expedient.

Defeasance.

(a) If the Authority shall pay or cause to be paid, or there shall otherwise be paid: (i) to the Owners of all Subordinated Revenue Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Subordinated Revenue Bonds and in the Subordinated Indenture and any Supplemental Subordinated Indenture and (ii) to the Trustee all amounts due and owing the Trustee under the Subordinated Indenture, then the pledge made under the Subordinated Indenture and other moneys and securities pledged under the Subordinated Indenture and any Supplemental Subordinated Indenture and all covenants, agreements and other obligations of the Authority to the Bondowners (except that the Subordinated Revenue Bonds may be tendered if and as provided therein and may be transferred, exchanged, registered, discharged from registration or replaced as provided in the Subordinated Indenture, and the covenants of the Subordinated Indenture shall survive), shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be reasonably requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Authority all moneys or securities held by them pursuant to the Subordinated Indenture and any Supplemental Subordinated Indenture which are not required for the payment of principal or Redemption Price, if applicable, on Subordinated Revenue Bonds not theretofore surrendered for such payment or redemption. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the Outstanding Subordinated Revenue Bonds of a particular Series, or of a particular maturity or particular Subordinated Revenue Bonds within a maturity within a Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Subordinated Indenture and any Supplemental Subordinated Indenture, such Subordinated Revenue Bonds shall cease to be entitled to any lien, benefit or security under the Subordinated Indenture and any Supplemental Subordinated Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Subordinated Revenue Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(b) Subordinated Revenue Bonds or interest installments for the payment or redemption of which moneys shall have been irrevocably set aside and shall be held in trust by the Paying Agent (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection (a) of this heading. Subject to the provisions of subsection (c) through subsection (d) of this heading, any Outstanding Subordinated Revenue Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (a) of this heading if (i) in case any of said Subordinated Revenue Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions to mail as provided in the Subordinated Indenture notice of redemption of such Subordinated Revenue Bonds (other than Subordinated Revenue Bonds which have been purchased by the Trustee at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to the Trustee as hereinafter provided prior to the mailing of such notice of redemption) on said date, (ii) there shall have been set aside irrevocably in trust, in compliance with the Act, an amount which shall be sufficient or Defeasance Securities (including any Defeasance Securities

issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, set aside in trust, in compliance with the Act, at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Subordinated Revenue Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Subordinated Revenue Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it instructions to mail a notice to the Owners of such Subordinated Revenue Bonds that the deposit required by (ii) above has been made with the Trustee and a verification report from an independent certified public accountant confirming the sufficiency of the Defeasance Securities and moneys received by the Trustee and that said Subordinated Revenue Bonds are deemed to have been paid in accordance with the Subordinated Indenture and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Subordinated Revenue Bonds (other than Subordinated Revenue Bonds which have been purchased by the Trustee at the direction of the Authority or purchased or otherwise acquired by the Board and delivered to the Trustee as hereinafter provided prior to the mailing of the notice of redemption referred to in clause (i) of this heading). Any notice of redemption mailed pursuant to the preceding sentence with respect to Subordinated Revenue Bonds which constitute less than all of the Outstanding Subordinated Revenue Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, as and to the extent necessary, apply moneys set aside in trust, in compliance with the Act, pursuant to the Subordinated Indenture to the retirement of said Subordinated Revenue Bonds in amounts equal to the unsatisfied balances (determined as provided in the Subordinated Indenture) of any Sinking Fund Installments with respect to such Subordinated Revenue Bonds, all in the manner provided in the Subordinated Indenture. The Trustee shall, if so directed in writing by the Authority (1) prior to the maturity date of Subordinated Revenue Bonds deemed to have been paid in accordance with the Subordinated Indenture which are not to be redeemed prior to their maturity date or (2) prior to the mailing of the notice of redemption referred to in clause (i) above with respect to any Subordinated Revenue Bonds deemed to have been paid in accordance with the Subordinated Indenture which are to be redeemed on any date prior to their maturity, apply moneys set aside in trust, pursuant to the Act, in respect of such Subordinated Revenue Bonds and redeem or sell Defeasance Securities so set aside in trust and apply the proceeds thereof to the purchase of such Subordinated Revenue Bonds and the Trustee shall immediately thereafter cancel all such Subordinated Revenue Bonds so purchased; provided, however, that the moneys and Defeasance Securities remaining set aside in trust after the purchase and cancellation of such Subordinated Revenue Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Subordinated Revenue Bonds, in respect of which such moneys and Defeasance Securities are set aside in trust on or prior to the redemption date or maturity date thereof, as the case may be.

If, at any time (A) prior to the maturity date of Subordinated Revenue Bonds deemed to have been paid in accordance with the Subordinated Indenture which are not to be redeemed prior to their maturity date or (B) prior to the mailing of the notice of redemption referred to in clause (i) with respect to any Subordinated Revenue Bonds deemed to have been paid in accordance with the Subordinated Indenture which are to be redeemed on any date prior to their maturity, the Authority shall purchase or otherwise acquire any such Subordinated Revenue Bonds and deliver such Subordinated Revenue Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee shall immediately cancel all such Subordinated Revenue Bonds so delivered; such delivery of Subordinated Revenue Bonds to the Trustee shall be accompanied by directions from the Board to the Trustee as to the manner in which such Subordinated Revenue

Bonds are to be applied against the obligation of the Trustee to pay or redeem Subordinated Revenue Bonds deemed paid in accordance with the Subordinated Indenture. The directions given by the Board to the Trustee referred to in the preceding sentences shall be accompanied by (I) a report from an independent certified public accounting firm to the effect that there will remain set aside in trust after any purchases, acquisition and cancellations of Subordinated Revenue Bonds as provided in the Subordinated Indenture, an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, set aside in trust, at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Subordinated Revenue Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (II) an unqualified opinion of nationally recognized attorneys on the subject of municipal bonds to the effect that any acquisition, cancellation or disposition would not cause any Subordinated Revenue Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Code and regulations thereunder applicable to the Subordinated Revenue Bonds and shall also specify the portion, if any, of such Subordinated Revenue Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to pay Subordinated Revenue Bonds deemed paid in accordance with the Subordinated Indenture upon their maturity date or dates and the portion, if any, of such Subordinated Revenue Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to redeem Subordinated Revenue Bonds deemed paid in accordance with the Subordinated Indenture on any date or dates prior to their maturity.

In the event that on any date as a result of any purchases, acquisitions and cancellations of Subordinated Revenue Bonds as provided in the Subordinated Indenture the total amount of moneys and Defeasance Securities remaining set aside in trust under the Subordinated Indenture is in excess of the total amount which would have been required to be set aside in trust on such date in respect of the remaining Subordinated Revenue Bonds in order to satisfy the Subordinated Indenture, the Trustee shall, if requested by the Authority, subject to the Subordinated Indenture, pay the amount of such excess to the Authority free and clear of any trust, lien, pledge or assignment securing said Subordinated Revenue Bonds or otherwise existing under the Subordinated Indenture, subject, however, to the provisions of the Subordinated Indenture concerning the Rebate Account. Except as otherwise provided the Subordinated Indenture, neither Defeasance Securities nor moneys set aside in trust pursuant to this heading nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Subordinated Revenue Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities set aside in trust, (y) to the extent such cash will not be required at any time for such purpose, shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien or pledge securing said Subordinated Revenue Bonds or otherwise existing under the Subordinated Indenture, subject, however, to the provisions of the Subordinated Indenture concerning the Rebate Account and (z) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Subordinated Revenue Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, subject, however, to the provisions of the Subordinated Indenture concerning the Rebate Account, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Subordinated Revenue Bonds or otherwise existing under the Subordinated Indenture, subject, however, to the provisions of the Subordinated Indenture concerning the Rebate Account.

(c) Anything in the Subordinated Indenture to the contrary notwithstanding, any moneys held by a Paying Agent in trust for the payment and discharge of any of the Subordinated Revenue Bonds which remain unclaimed for two years after the date when such Subordinated Revenue Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Paying Agent at such date, or for two years after the date of deposit of such moneys if deposited with the Paying Agent after the said date when such Subordinated Revenue Bonds became due and payable, shall, at the written request of the Board, be repaid by the Paying Agent to the Authority, subject to any claims by the United States Virgin Islands, as its absolute property and free from trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for payment of such Subordinated Revenue Bonds; provided, however, that before being required to make any such payment to the Authority the Paying Agent shall, at the expense of the Authority, cause to be mailed to the Bondowners a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

(d) No excess cash received from principal or interest payments on Defeasance Securities set aside in trust pursuant to the Subordinated Indenture shall be paid over to the Authority by the Trustee unless the Trustee shall have received from the Authority a certificate setting forth such excess amount, together with a report from an independent certified public accounting firm reasonably acceptable to the Trustee to the effect that there shall remain after such withdrawal, set aside in trust, an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, set aside in trust, at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Subordinated Revenue Bonds on or prior to the redemption date or maturity date thereof, as the case may be.

Notice. Any Notice, demand, direction, request or other instrument authorized or required by the Subordinated Indenture to be given to or filed with the Authority or the Trustee shall be deemed to have been sufficiently given or filed for all purposes of the Subordinated Indenture if and when sent by registered mail, return receipt requested.

THE SECOND SUPPLEMENTAL SUBORDINATED INDENTURE

The following is a summary of certain provisions of the Second Supplemental Subordinated Indenture. Such summary does not purport to be complete or definitive and reference is made to the Second Supplemental Subordinated Indenture for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under **Appendix D – “Glossary of Certain Defined Terms”**.

Authorization and Details of 2009A Bonds. The Second Supplemental Subordinated Indenture authorizes the issuance of the Series 2009A Bonds.

Depository Provisions. Initially, one certificate for each maturity of the Series 2009A Bonds will be issued and registered to the Depository, or its nominee. The Authority and the Trustee have entered into a Letter of Representation relating to a book-entry only system to be maintained by the Depository with respect to the Series 2009A Bonds.

Optional Redemption. At the request of the Authority, the Trustee shall give notice of redemption pursuant to the Subordinated Indenture prior to deposit of an amount sufficient to pay the redemption price of all Series 2009A Bonds being called for redemption and the interest accruing thereon to the redemption date in the applicable Redemption Subaccount in the Diageo Pledged Revenue Account; provided any such notice sent prior to such deposit shall state that the redemption is conditioned upon receipt of adequate funds therefor.

Funds and Accounts. The Second Supplemental Subordinated Indenture establishes within the Construction Account a Series 2009A Construction Subaccount. The portion of the proceeds of the Series 2009A Bonds specified in the Second Supplemental Subordinated Indenture shall be deposited in the Series 2009A Construction Subaccount and used to pay the costs of the Diageo Project. Moneys in each of the Series 2009A Project Subaccount shall be disbursed upon the written order of an authorized officer of the Authority delivered to the Trustee, substantially in the form of the Disbursement Request attached to the Second Supplemental Subordinated Indenture. If the balance in the Construction Account be in excess of the amount for the payment of any remaining part of the costs of completion of the Diageo Project, the Trustee shall transfer such excess toward the Series 2009 Senior Lien Redemption Account of the Senior Lien Debt Service Account to be applied to the extent sufficient to effect the redemption of the Series 2009A Bonds.

The Second Supplemental Subordinated Indenture establishes within the Interest Account of the Senior Lien Debt Service Account the Series 2009A Interest Subaccount and within the Principal Account of the Senior Lien Debt Service Account the Series 2009A Principal Subaccount. Moneys in such subaccounts shall be used in accordance with the Subordinated Indenture.

The Second Supplemental Subordinated Indenture establishes within the Senior Lien Debt Service Reserve Account a Series 2009A Senior Lien Debt Service Reserve Subaccount. The Series 2009A Senior Lien Debt Service Reserve Subaccount shall be funded at the time of the delivery of the Series 2009A Bonds in an amount equal to the Series 2009A Debt Service Reserve Requirement pursuant to the Subordinated Indenture. Moneys in the Series 2009A Debt Service Reserve Subaccount shall be used in accordance with the provisions of the Subordinated Indenture.

The Second Supplemental Subordinated Indenture establishes a Series 2009A Cost of Issuance Subaccount in the Cost of Issuance Account. The portion of the proceeds of the Series 2009A Bonds specified in Second Supplemental Subordinated Indenture shall be deposited in the Series 2009A Cost of Issuance Subaccount and used to pay costs of issuance related to the Series 2009A Bonds. Any balance in the Series 2009A Cost of Issuance Subaccount upon payment of all such costs of issuance shall be disposed of in accordance with the provisions of the Subordinated Indenture.

The Second Supplemental Subordinated Indenture establishes a Series 2009A Senior Lien Expense Subaccount in the Senior Lien Expense Account. Moneys in the Series 2009A Senior Lien Expense Subaccount shall be disposed of in accordance with the provisions of the Subordinated Indenture.

Security for Series 2009A Bonds. The Series 2009A Bonds shall be equally and ratably secured under the Subordinated Indenture with any other Senior Lien Bonds issued pursuant to the Subordinated Indenture, without preference, priority or distinction of any Senior Lien Bonds over any other Senior Lien Bonds, as provided in the Subordinated Indenture.

Arbitrage Rebate Account. The Second Supplemental Subordinated Indenture establishes the Series 2009A Arbitrage Rebate Account to be held by the Authority. The Authority shall deposit in the Series 2009A Arbitrage Rebate Account from legally available moneys from time to time for payment of the rebate obligations under the Code (the “Rebate Amount”). Notwithstanding anything in the Second Supplemental Subordinated Indenture to the contrary, the 2009A Arbitrage Rebate Account is not pledged to the payment of the Series 2009A Bonds and shall not be used to pay the Series 2009A Bonds.

Default. No failure to make payments of interest of or principal on any Second Lien Bonds shall constitute an Event of Default under the Second Supplemental Subordinated Indenture unless no Senior Lien Bonds are Outstanding.

THE DIAGEO SPECIAL ESCROW AGREEMENT

The following is a summary of certain provisions of the Diageo Special Escrow Agreement. Such summary does not purport to be complete or definitive and reference is made to the Diageo Special Escrow Agreement for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under **Appendix D – “Glossary of Certain Defined Terms”**.

Flow of Funds. Amounts in the Diageo Special Escrow Fund are to be held by the Diageo Special Escrow Agent to provide for the following deposits (in order of priority), (1) at the direction of the Government, the amounts set forth in a certificate of the Government with respect to clauses (i)-(vi) and (viii) of this heading, and (2) at the direction of Diageo, the amounts set forth in a certificate of Diageo with respect to clause (vii) of this heading), in each case as calculated by the Calculation Agent in accordance with the Diageo Agreement and the Calculation Agreement, and delivered to the Diageo Special Escrow Agent on or before the second Business Day prior to October 1 of each Fiscal Year, such transfers to be made on or prior to October 1 of each Fiscal Year:

(i) the deposit with the Trustee, or any paying agent, of amounts required, if any, for payment of principal of, redemption premium, if any, and interest on, Senior Lien Bonds in such Fiscal Year or any prior Fiscal Year and to replenish any Senior Lien Debt Service Reserve Account to the Debt Service Reserve Requirement level;

(ii) the deposit with the Trustee, or any paying agent, of amounts required, if any, to deposit in any Senior Lien Credit Subaccount, Senior Lien Expense Subaccount, Senior Lien Purchase Subaccount or any other Account or Subaccount in the Senior Lien Debt Service Account as may be established by a Supplemental Subordinated Indenture;

(iii) the deposit with the Trustee, or any paying agent, of amounts required, if any, for payment of principal of, redemption premium, if any, and interest on, Second Lien Bonds in such Fiscal Year or any prior Fiscal Year and to replenish any Second Lien Debt Service Reserve Account to the Debt Service Reserve Requirement level;

(iv) the deposit with the Trustee, or any paying agent, of amounts required, if any, to deposit in any Second Lien Credit Subaccount, Second Lien Expense Subaccount, Second Lien Purchase Subaccount or any other Account or Subaccount in the Second Lien Debt Service Account as may be established by a Supplemental Subordinated Indenture;

(v) the deposit to the account designated by the Government, of amounts required, if any, pursuant to the Diageo Agreement subject to any adjustments, as appropriate in accordance with the Diageo Agreement, and certified by the Calculation Agent for payment to the Government Account;

(vi) the deposit to the account designated by the Government, of amounts required, if any, pursuant to the Diageo Agreement and Subordinated Indenture, for payment to the Communities Facilities Trust Account;

(vii) the deposit to the account designated by Diageo, of amounts required, if any, pursuant to the Diageo Agreement (including, without limitation, any amounts payable to Diageo from Excess Amounts (as defined in the Diageo Agreement), any amount resulting from an adjustment required in accordance with the Diageo Agreement or from any other Government

funds, to the extent provided in the Diageo Agreement), for payment to the Surplus Receipts Account; and

(viii) the deposit with the Government, in accordance with the Diageo Special Escrow Agreement, of any amounts in excess of the deposits, if any, required above, as certified by the Calculation Agent, which amounts may be applied by the Government for any lawful purpose.

Irrevocability of the Diageo Special Escrow Fund; Parity. The escrow created by the Diageo Special Escrow Agreement shall be irrevocable so long as any Subordinated Revenue Bonds are outstanding under the terms of the Subordinated Indenture and shall terminate upon satisfaction of all (x) obligations of the Government to the Authority with respect to the outstanding Subordinated Revenue Bonds and the Loan Agreements, (y) obligations of Diageo to the Government and of the Government to Diageo under the Diageo Agreement, and (z) obligations of the Authority to the Trustee under the Subordinated Indenture.

The holders of the Senior Lien Bonds shall be on parity with each other and have a senior lien on any funds deposited in the Diageo Special Escrow Fund over the Second Lien Bonds issued under the Subordinated Indenture, which shall be on parity with each other, provided, however, the payment of any additional Subordinated Revenue Bonds shall be junior and subordinate to the payment of the Senior Lien Bonds until such funds are used and applied in accordance with the Diageo Special Escrow Agreement. The amounts on deposit in the Diageo Special Escrow Fund shall be applied solely as provided in the Diageo Special Escrow Agreement.

Termination. The Diageo Special Escrow Agreement shall terminate upon (x) satisfaction of all obligations of the Government to the Authority with respect to the Subordinated Revenue Bonds and the Loan Agreements, (y) satisfaction of all obligations of Diageo to the Government and of the Government to Diageo under the Diageo Agreement, and (z) when no Subordinated Revenue Bonds are Outstanding under the terms of the Subordinated Indenture and each Supplemental Subordinated Indenture. Any moneys remaining in the Diageo Special Escrow Fund at the time of such termination shall be released to the Government.

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2009A LOAN AGREEMENT

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2009A LOAN AGREEMENT

The following is a summary of certain provisions of Series 2009A Loan Agreement. Such summary does not purport to be complete or definitive and reference is made to the Series 2009A Loan Agreement for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under **Appendix D – “Glossary of Certain Defined Terms”**.

The Loan. The Authority, on the terms and conditions set forth in the Series 2009A Loan Agreement, shall issue, sell, and deliver the Series 2009A Bonds to the Underwriter and make a Loan of the proceeds of the Series 2009A Bonds to the Government.

Repayment of the Loan. The Loan repayment obligation of the Government is evidenced by the Series 2009A Loan Note. The Government shall repay to the Authority the amounts due and payable pursuant to the Series 2009A Loan Note in installments of principal and interest pursuant to the Series 2009A Loan Agreement upon receipt of the Diageo Matching Fund Revenues from the United States Treasury and not later than the second Business Day preceding October 1 in each year in the amounts equal to the amounts due for principal and interest on the Series 2009A Bonds that the Series 2009A Loan Note secures.

Redemption of the Series 2009A Loan Note. The Series 2009A Loan Note may, at the option of the Government, be redeemed, in whole or in part, prior to its maturity at the times, in the manner and same maturities as an optional redemption of the Series 2009A Bonds and at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date of redemption and any premium required in connection with the optional redemption of the Series 2009A Bonds pursuant to the terms of the Subordinated Indenture. In addition, in the event the Series 2009A Bonds are subject to mandatory redemption in whole or in part, or in the event the Series 2009A Bonds are tendered by the holders thereof for purchase and are purchased by the Authority for retirement and cancellation, then, upon payment of the Redemption Price or purchase price of such Series 2009A Bonds, the Government shall be deemed to have made a prepayment on the Series 2009A Loan Note, in accordance with the terms of the Series 2009A Loan Agreement, in a principal amount equal to the aggregate principal amount of the Series 2009A Bonds so redeemed or purchased.

The principal of, interest on, Redemption Price, if any, of and all other amounts payable under the Series 2009A Loan Note shall be payable in immediately available funds in lawful money of the United States at the designated corporate trust office of the Trustee on behalf of the Authority, or such other place as the Authority may designate in writing to the Government. Not later than the second Business Day prior to October 1 of each year, the Diageo Special Escrow Agent, at the direction of the Government, as certified by a calculation agent to be appointed by the Government (the “Calculation Agent”), shall advance to the Trustee amounts sufficient to pay, or provide for the payment of, the principal of, and interest on, or the Redemption Price of the Series 2009A Loan Note, if applicable, payable on October 1 and April 1 of the next Fiscal Year to be held by the Trustee for such payments.

The Government shall pay, as additional amounts due on the Series 2009A Loan Note (i) such amounts as are required to replenish any deficiency in the Debt Service Reserve Account in an amount equal to the Debt Service Reserve Requirement; (ii) all such other amounts which are

required in order to provide sufficient funds for the transfers from the Diageo Pledged Revenue Account to the other accounts and subaccounts established or to be established under the Subordinated Indenture (other than the Senior Lien Interest Subaccount and the Senior Lien Principal Subaccount of the Senior Lien Debt Service Account) at the times and in the amounts set forth in the Subordinated Indenture; and (iii) such amounts sufficient to pay premium, if any, on the Series 2009A Bonds when due; and (iv) such other amounts, if any, payable by the Authority under the Series 2009A Bonds or pursuant to the terms of the Subordinated Indenture.

Application of Proceeds and Other Moneys. The Authority shall deposit all funds received from the proceeds of the Series 2009A Bonds into the respective accounts and subaccounts in accordance with the Series 2009A Loan Agreement.

Security. The revenues pledged to pay the Series 2009A Loan Note are derived from the Diageo Matching Fund Revenues, as shall be determined by the Calculation Agent, and certified to in a certificate delivered to the Trustee and the Diageo Special Escrow Agent on or before the second Business Day prior to each October 1, commencing, October 1, 2012, pursuant to the Diageo Special Escrow Agreement. The Diageo Matching Fund Revenues are derived in accordance with United States Public Law 94-392, as amended, and are received from the United States pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, as amended. The Series 2009A Loan Note is a special limited obligation of the Government and is secured solely by a pledge of the Diageo Matching Fund Revenues. The Series 2009A Loan Note is not a debt of the United States of America and the United States of America is not liable on the Series 2009A Loan Note. The Series 2009A Bonds shall under no circumstances constitute a general obligation of the Authority, the United States Virgin Islands or the United States of America nor shall the Authority, the United States of America or the United States Virgin Islands be liable thereon. The Authority has no taxing power.

Pursuant to the Series 2009A Loan Agreement, the Government pledges and assigns its interest in the Diageo Matching Fund Revenues and the Diageo Special Escrow Agreement to the Trustee as security for the payment of the Series 2009A Loan Note and consents to the deposit of the Diageo Matching Fund Revenues into the Diageo Special Escrow Fund, as referenced in the Subordinated Indenture.

Representations and Warranties of the Government. The Government makes the following representations and warranties to the Authority:

(a) The amount of Diageo Matching Fund Revenues anticipated to be collected by the Government pursuant to Section 28(b) of the Revised Organic Act of 1954, as amended, is a sum which, during the period the Series 2009A Loan Note is outstanding, is in excess of the amount necessary to pay the principal of and interest on the Series 2009A Loan Note issued in connection with the Series 2009A Bonds.

(b) The Government is duly authorized and has full power and authority to execute, deliver and perform its obligations under the Series 2009A Loan Agreement, the Diageo Agreement, the Diageo Special Escrow Agreement, Amendment No. 2 to the Special Escrow Agreement, the Diageo Project Implementation Agreement and the Series 2009A Loan Note.

(c) The execution, delivery and performance by the Government of the Series 2009A Loan Agreement, the Diageo Agreement, the Diageo Special Escrow Agreement, Amendment No. 2 to the Special Escrow Agreement, the Diageo Project Implementation Agreement and the Series 2009A Loan Note (i) have been duly authorized by all necessary action on the part of the

Government; (ii) do not conflict with, or result in a violation of, any provision of law or any order, writ, rule or regulation of any court or governmental agency or instrumentality binding upon or applicable to the Government; (iii) do not and will not conflict with, result in a violation of, or constitute a default under, any agreement, resolution, mortgage, indenture or instrument to which the Government is a party or by which the Government or any of its property is bound; and (iv) do not and will not result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature (other than as permitted or arising under the Series 2009A Loan Agreement or the Diageo Special Escrow Agreement) upon or with respect to any property of the Government.

(d) No authorization, consent, approval, permit, license, exemption of or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality was, is or will be necessary for the valid execution, delivery or performance by, or enforcement against or by, the Government of the Series 2009A Loan Agreement, the Diageo Special Escrow Agreement or the Series 2009A Loan Note.

(e) The Diageo Agreement, Series 2009A Loan Agreement, the Diageo Special Escrow Agreement, Amendment No. 2 to the Special Escrow Agreement, the Diageo Project Implementation Agreement and the Series 2009A Loan Note when executed and delivered by the other parties thereto, constitute, the legal, valid and binding obligations of the Government enforceable against the Government in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws subsequently enacted or principles of equity affecting the enforcement of creditors' rights generally as such laws may be applied in the event of insolvency, reorganization or other similar proceeding of, or moratorium applicable to, the Government. Notwithstanding anything in the representations and warranties sections of the Series 2009A Loan Agreement to the contrary, the Government acknowledges that the effect of any bankruptcy, insolvency, reorganization, moratorium or other similar law hereafter enacted by the Government on the enforceability of the Series 2009A Loan Agreement, the Diageo Agreement, the Diageo Special Escrow Agreement, Amendment No. 2 to the Special Escrow Agreement, the Diageo Project Implementation Agreement or the Series 2009A Loan Note shall be subject to Article 3 of the Revised Organic Act (48 U.S.C.A. § 1561).

(f) The Government is duly authorized under all applicable laws to issue the Series 2009A Loan Note as a special limited obligation indebtedness of the Government, secured solely by the Diageo Matching Fund Revenues and to further secure the Series 2009A Loan Note by pledging and assigning a lien on and a security interest in the Diageo Matching Fund Revenues and in all amounts on deposit in the Diageo Special Escrow Account for the payment of principal of and interest on the Series 2009A Loan Note and all amounts payable under the Series 2009A Loan Agreement and thereunder. The Diageo Matching Fund Revenues pledged and assigned by the Series 2009A Loan Agreement to the payment of principal of and interest on the Series 2009A Loan Note will be subject in all respects to the Senior Bonds and the pledge of Matching Fund Revenues as security for the Senior Bonds pursuant to the Senior Indenture, except as may be provided by a Supplemental Indenture, free and clear of any prior or parity pledge, lien, charge or encumbrance thereon or with respect thereto prior to or of equal rank with the pledge created by the Series 2009A Loan Agreement. Upon deposit of the Diageo Matching Fund Revenues into the Diageo Special Escrow Account pursuant to the Diageo Special Escrow Agreement, such amounts so deposited shall not be subject to any lien or attachment by any creditor of the Government or any other person which is of a rank prior to or on a parity with the lien created by the Series 2009A Loan Agreement, the Diageo Special Escrow Agreement or the Subordinated Indenture. The Diageo Special Escrow Agreement and Diageo Matching Fund Revenues pledged

and assigned by the Series 2009A Loan Agreement to the payment of principal and interest on the Series 2009A Loan Note will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto, subject and subordinate in all respects to the Senior Bonds and the pledge of Matching Fund Revenues as security for the Senior Bonds pursuant to the Senior Indenture, except as may be provided by a Supplemental Indenture, and all action on the part of the Government to that end has been and will be duly and validly taken.

(g) There are no suits, actions, proceedings or investigations pending or, to the best knowledge of the Government, threatened against or affecting the Government or any of its properties, before or by any court or governmental department, commission, board, bureau, agency or instrumentality (other than as disclosed in writing to the Purchaser's counsel), seeking to restrain or enjoin the execution and delivery of the Series 2009A Loan Agreement or challenging the creation, validity, or binding effect of the Series 2009A Loan Agreement, the Diageo Agreement, the Diageo Special Escrow Agreement, Amendment No. 2 to the Special Escrow Agreement, the Diageo Project Implementation Agreement, or the Series 2009A Loan Note or the ability of the Government to perform its obligation under said documents.

(h) The Government is not, in any material respect, in breach of or in default under any applicable law or administrative regulation of the United States Virgin Islands or of the United States, relating, in each case, to the issuance of debt securities by the Government, or any applicable judgment, decree or loan agreement, note, resolution, ordinance, agreement or other instrument to which the Government is a party or is otherwise subject, the consequence of which or the correction of which would contest the creation, validity, or binding effect of the Series 2009A Loan Agreement, the Diageo Agreement, the Diageo Special Escrow Agreement, Amendment No. 2 to the Special Escrow Agreement, the Diageo Project Implementation Agreement, or the Series 2009A Loan Note or the ability of the Government to perform its obligations under said documents.

(i) At the time of issuance of the Series 2009A Loan Note, subject to the prior lien of the Senior Bonds and the pledge of Matching Fund Revenues as security for the Senior Bonds pursuant to the Senior Indenture, there are no other bonds, notes, or other evidences of indebtedness of the Government outstanding that are secured by the Matching Fund Revenues or the Diageo Matching Fund Revenues.

Covenants of the Government. The Government covenants and agrees that, among other actions, the Government shall:

(a) Observe and comply with the terms and conditions of and perform all of its obligations under the Series 2009A Loan Agreement, under the Series 2009A Loan Note, the Diageo Special Escrow Agreement and the Diageo Agreement and pay all amounts payable by the Government under the Series 2009A Loan Agreement and thereunder according to the respective the terms of the Series 2009A Loan Agreement and thereof.

(b) Promptly notify the Authority and the Trustee in writing of the occurrence of (i) any Event of Default under the Series 2009A Loan Agreement or under the Diageo Agreement and (ii) any default under documents governing any debt of the Government.

(c) In furtherance of the pledge of Diageo Matching Fund Revenues set forth in the Series 2009A Loan Agreement, the Government has covenanted to, among other things, request that the United States deliver and take all steps necessary to ensure the receipt of and the maximization of Matching Fund Revenues (including Diageo Matching Fund Revenues) for

which the Government is eligible to receive pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, as amended, and to deposit such funds in the Diageo Special Escrow Fund held by the Diageo Special Escrow Agent pursuant to the Diageo Special Escrow Agreement or as the Government may otherwise direct, with the consent of the Authority and the Trustee.

(d) Observe and comply with the terms and conditions of and perform all of its obligations under the Special Escrow Agreement and the Diageo Special Escrow Agreement.

(e) Observe and comply with the terms and conditions of and perform all of its obligations under the Diageo Agreement and the Diageo Project Implementation Agreement.

(f) In furtherance of the pledge of Diageo Matching Fund Revenues set forth in the Series 2009A Loan Agreement, the Government covenants to, among other things, do all things reasonably necessary to compel compliance by Diageo with the terms, conditions and its performance obligations under the Diageo Agreement.

(g) At all times while the Series 2009A Loan Note is outstanding, to the extent permitted by law, defend, preserve and protect the pledge of the Diageo Matching Fund Revenues, and, if applicable, any Substitute Revenues (as defined below), under the Series 2009A Loan Agreement and the security interest under the Diageo Special Escrow Agreement in all amounts on deposit or required to be deposited in the Special Escrow Agreement and the Diageo Special Escrow Agreement and all rights of the holder of the Series 2009A Loan Note against all claims and demands of all third parties.

(h) Consent to the assignment, pursuant to the Subordinated Indenture, of all right, title and interest of the Authority in the Series 2009A Loan Agreement, and all amendments, modifications and renewals of the Series 2009A Loan Agreement, to the Trustee, reserving to the Authority, however, the rights providing that notices and other communications be given to the Authority.

(i) Provide to the Authority within one hundred eighty (180) calendar days of the end of each Fiscal Year a financial report summarizing annual receipts of Diageo Matching Fund Revenues and, if applicable, the Diageo Substitute Revenues.

(j) No later than one hundred eighty (180) days after the close of the Fiscal Year, the Government shall direct the Calculation Agent to deliver to the Trustee, the Diageo Special Escrow Agent, the Commissioner of Finance of the Government of the Virgin Islands and Diageo a certificate setting forth the Diageo Matching Fund Revenues received pursuant to the Diageo Agreement and available for payment of the Loan installments required under the Series 2009A Loan Note.

(k) In the event that the federal government discontinues the payment of Matching Fund Revenues to the Government and substitutes another stream of revenues in lieu thereof (the "Substitute Revenues"), the Government will use its best efforts to pledge such Substitute Revenues to the repayment of the Loan.

(l) Not revoke, amend in any way or terminate the Special Escrow Agreement, the Diageo Special Escrow Agreement or the Project Implementation Agreement that in any way may materially adversely affect the rights of the holder of the Series 2009A Loan Note.

(m) Not allow the Diageo Matching Fund Revenues to be encumbered by any lien, charge or encumbrance other than pursuant to the Senior Indenture and any Additional Subordinated Bonds (as defined in the Subordinated Indenture) which include Senior Lien Bonds (as defined in the Subordinated Indenture) and Second Lien Bonds (as defined in the Subordinated Indenture) issued in conformance with the terms of the requirements set forth in the Subordinated Indenture.

(n) Not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest represented by the Series 2009A Bonds, under Section 103 of the Code. The Government will not directly or indirectly use or permit the use of any proceeds of the Series 2009A Bonds or take or omit to take any action that would cause the Series 2009A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code or private activity bonds with the meaning of Section 141 of the Code. To that end, the Government will comply with all requirements of Section 148 of the Code and Section 141 of the Code to the extent applicable to the Series 2009A Bonds.

Without limiting the generality of the foregoing, the Government agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Series 2009A Bonds from time to time. The covenants in the negative covenants section of the Series 2009A Loan Agreement shall survive payment in full or defeasance of the Series 2009A Loan Note and the Series 2009A Bonds.

In order to comply with the provisions of the negative covenants section of the Series 2009A Loan Agreement, the Government agrees to carry out the provisions of Section 148(f) of the Code and applicable Treasury Regulations as such provisions may from time to time be added to, modified or eliminated so as to apply to the Series 2009A Bonds. The Government further agrees to employ or appoint knowledgeable persons having experience in preparing computations under Section 148 of the Code to assist the Government in complying with the covenants made in the negative covenants section of the Series 2009A Loan Agreement.

(o) Not fail to take such actions as required to ensure compliance with the terms of the Diageo Agreement, including but not limited to, Articles IV, V and VI of such Diageo Agreement.

(p) Not take any actions, or fail to take any action that would in any way impair the Government’s right to collect the maximum amount of Matching Fund Revenues and Diageo Matching Fund Revenues to which it may be entitled.

Affirmative Covenants of the Authority. The Authority shall use its best efforts to cause the Government to comply with the covenants set forth in the Series 2009A Loan Agreement.

Events of Default. The occurrence of any of the following events shall be an “Event of Default” under the Series 2009A Loan Agreement:

(a) The Government shall fail to pay when due any amount payable on the Series 2009A Loan Note; or

(b) The Government shall fail to perform or observe any term, covenant or agreement contained in the Series 2009A Loan Agreement, Amendment No. 2 to the Special

Escrow Agreement, the Special Escrow Agreement, the Diageo Special Escrow Agreement, the Diageo Project Implementation Agreement or the Diageo Agreement on its part to be performed or observed and any such failure shall remain unremedied for thirty (30) days after written notice thereof shall have been given to the Government by the Authority, Diageo or the Trustee, provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Government within the applicable period and diligently pursued until the default is corrected, or, with respect to the Diageo Agreement, such default has been waived by Diageo; or

(c) An “Event of Default” as such term is defined in the Subordinated Indenture.

Rights on Default. If an Event of Default shall happen and shall not have been remedied, then, and in every such case, past due principal and interest will continue to accrue under the Series 2009A Loan Note after such default and the holder of the Series 2009A Loan Note may do one or more of the following: (i) sue to collect sums due under the Series 2009A Loan Note, (ii) compel, to the extent permitted by law, by mandamus or otherwise, the performance by the Government of any covenant made in the Series 2009A Loan Agreement or the Series 2009A Loan Note, and (iii) examine the books and records of the Government to account for all moneys and securities constituting the Diageo Matching Fund Revenues.

Continuing Obligation. Until the date on which all amounts due and owing to the Authority from the Government pursuant to the Series 2009A Loan Note shall have been paid in full or otherwise provided for, the Series 2009A Loan Agreement is a continuing obligation of the Government and shall (i) be binding upon the Government, its successors and assigns and (ii) inure to the benefit of and be enforceable by the Authority and the Trustee and their respective successors, transferees and assigns.

Amendments, Changes and Modifications. From time to time, the Governor, on behalf of the Government, with the consent of the Authority and the Trustee, and/or the Authority, with the consent of the Government and the Trustee, may cause to be executed a supplement to the Series 2009A Loan Agreement curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provision contained in the Series 2009A Loan Agreement or making such provisions in regard to matters or questions arising in the Series 2009A Loan Agreement as may be necessary or desirable and as shall not materially adversely affect the interests of the holder of the Series 2009A Loan Note. Such supplement shall become effective upon the filing with the Government an instrument of the holder of the Series 2009A Loan Note approving such supplement. In addition, the Government and/or the Authority may cause to be executed a supplement to the Series 2009A Loan Agreement at any time and from time to time modifying any provision of the Series 2009A Loan Agreement with the consent of the holder of the Series 2009A Loan Note, except as provided in the Subordinated Indenture.

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APPENDIX G

**VERIFICATION AND PROJECTION OF MATCHING FUND REVENUES
FROM RUM SHIPMENTS TO THE U.S.**

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Verification and Projection of Virgin Islands Matching Fund Revenues from Rum Shipments to the US

Submitted to:

Virgin Islands Public Finance Authority

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June 12, 2009

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Disclaimer

The projections and forecasts included in this report, including, but not limited to, those regarding future excise tax revenues, are estimates, which have been prepared on the basis of certain assumptions and hypotheses. No representation or warranty of any kind is or can be made with respect to the accuracy or completeness of, and no representation or warranty should be inferred from, these projections and forecasts. The projections and forecasts contained in this report are based upon assumptions as to future events and, accordingly, are subject to varying degrees of uncertainty. Some assumptions inevitably will not materialize and, additionally, unanticipated events and circumstances may occur. Therefore, for example, actual matching fund revenues inevitably will vary from the projections and forecasts included in this report and the variations may be material and adverse.

Executive Summary

Revenue Verification

IHS Global Insight reviewed records that document the Matching Fund Revenue collection and transfer process during the period from FY 1992 through FY 2008. This review indicated that the annual Matching Fund Revenues transferred to the United States Virgin Islands Government ("VI") are consistent with excise taxes collected from U.S. distillers on purchases of bulk VI rum and U.S. Customs Service ("Customs") duties levied on cased VI rum. This conclusion is based on a review of the method by which Matching Fund Revenues are calculated and transferred, which involves a process of revenue projections and subsequent adjustments based on actual revenues collected. Between FY 1992 and FY 2008 certain revenue transfers did not exactly equal the amounts that would be expected, given this projection and adjustment process. Because these discrepancies were minimal, however, we considered them immaterial.

Revenue Projection

Projections of future Matching Fund Revenues in this report are derived in two parts. First we project the revenues based on shipments from the existing rum plant ("Cruzan") to be operated by Fortune Brands after an acquisition from Pernod Ricard. Second, we add the revenues projected from shipments by Diageo USVI, Inc. ("Diageo") of rum to be used in the production of Captain Morgan branded products, which we are expected to commence in 2012.

We present three alternative scenarios – a baseline forecast and one low and one high scenario - of future rum shipments and Matching Fund Revenues. The first model, our Constant Market Share Model, projects Matching Fund Revenues as a function of U.S. rum consumption. This model, in accord with an upturn in the past decade, predicts an increasing revenue stream consistent with our forecast of higher U.S. consumption, which is similar to the projection of rum consumption contained in the *Adams Liquor Handbook (2008, 2009)*. In each scenario U.S. rum consumption is moderated significantly by the current recession in U.S. economy, which is not expected to return to robust growth until 2011.

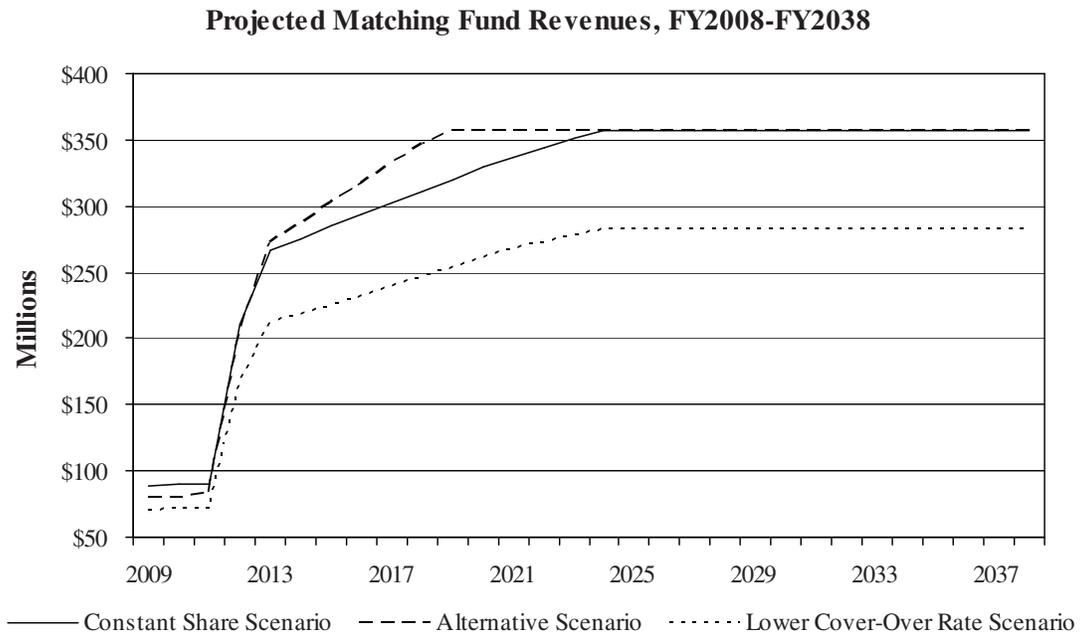
This model projects that growth in U.S. rum consumption will average 2.5% during the 30 years from 2008 to 2038, reaching 52.2 million 9-liter cases in 2038. Matching Fund Revenues from the Cruzan plant also will average 2.5% growth from 2008 to 2021, when the plant's matured rum shipment capacity of 8.9 million proof gallons is reached. At that capacity Matching Fund revenues from Cruzan will equal \$117.9 million annually. Under the similar constant share scenario, it is assumed that Captain Morgan maintains its current share of the U.S. rum market, the new plant reaches its matured rum shipment capacity of 18.9 million proof gallons in 2024, and it will then generate Matching Fund revenues of \$238.5 million annually. This assumes that the U.S. Government's current "cover-over" rate (i.e. the portion of excise tax revenues actually transferred to the VI Government remains unchanged at \$13.25 per proof gallon.

In the second model, our Growing Market Share Model, projects that Cruzan and Captain Morgan increase their share of the U.S. rum market. This model projects higher growth in Matching Fund Revenues than the Constant Market Share model. Matching Fund Revenues reach an annual total of \$356.4 million by 2019 as a result of an average rate of growth of Fortune Brands shipments of Cruzan and bulk rum of 3.9% per year from 2009 to 2018, and of Diageo shipments of Captain Morgan of 4.7% until capacity is reached in 2018. As with the first model, this average assumes that the U.S. Government's \$13.25 per proof gallon cover-over rate remains unchanged.

Finally, our third scenario shows future Matching Fund Revenues under the assumption that the cover-over rate reverts to \$10.50 per proof gallons. Under this scenario, annual Matching Fund Revenues reach a peak of \$282.5 million in fiscal year 2024.

Graph 1 below illustrates the Matching Fund Revenues projected by these three scenarios.

Graph 1



Revenue Verification

Revenue Estimate and Transfer Process

The VI Government receives revenue from the U.S. federal excise taxes that are levied on VI rum shipped to and used for consumption in the United States. Virtually all of this rum is produced by a single producer, Cruzan owned by Fortune Brands. Federal excise taxes levied on VI rum are paid by U.S. distributors when they bottle VI rum shipped in bulk to the US, and are collected by the Alcohol and Tobacco Tax and Trade Bureau (“TTB”) of the U.S. Department of Treasury (“Treasury”).¹ TTB collects these taxes at the rate of \$13.50 per proof gallon. Currently, the portion of these revenues which is actually transferred to the VI Government is, by statute, \$13.25 per proof gallon. These federal excise tax collections, based on the \$13.25 rate, are known as the “cover-over” Matching Fund Revenues received by the VI.² A cover-over rate of \$11.30 expired on September 30, 1998, reverting to a rate of \$10.50 per proof gallon. In fiscal year 2000, the rate increased from \$10.50 to the current rate of \$13.25 per proof gallon. In addition, monies collected by Customs on cased rum (rum produced and bottled in the VI and exported to the US), also currently computed at the \$13.25 rate, are included in Matching Fund Revenues. These collections are typically small in magnitude compared to bulk collections, as about 99% of VI rum is exported in bulk to the US.

Matching Fund Revenues are not transferred to the VI directly when collected by TTB. Instead, the process by which they are received by the VI involves an annual advance of monies, based on projected tax revenues (referred to as the “base advance”), and subsequent adjustments to this advance. These adjustments are equivalent to the difference between the base advance and actual earnings two FYs earlier. Therefore, the amount of Matching Fund Revenues received by the VI Government during a given FY does not equal the “cover-over” amounts collected during the same 12-month period. For example, the FY 2007 advance was equal to projected FY 2007 revenues adjusted by the difference between the FY 2005 base advance and actual FY 2005 collected tax revenues. These actual monthly collected federal excise tax revenues are reported by TTB through Monthly Cover-Over Reports submitted to the U.S. Department of the Interior (“Interior”).

Each year, the VI Government requests the VI’s Matching Fund Revenue advance through a letter submitted by the Governor of the Virgin Islands (the “Governor”) to Interior. The Governor’s request is based on an estimate by the VI Office of Management and Budget (“OMB”) of rum production and the resulting federal excise tax revenues to be collected and the appropriate adjustment for that year. This adjustment is based on collected tax revenues two fiscal years earlier. Interior then determines the amount that will be transferred to the VI Government, and requests that Treasury transfer that amount to an account held by the Special Escrow Agent acting on behalf of the VI Government (the “Escrow Account”), pursuant to a certain Special Escrow Agreement by and between the Government and the Special Escrow Agent (the “Special Escrow Agreement”).

¹ Prior to 2003, TTB was known as the Bureau of Alcohol, Tobacco and Firearms (“BATF”). All references to data reviewed and received before 2003 will be referenced as TTB for consistency.

² The term “cover-over” revenue can also be used to refer to all tax revenues collected on the sale of rum in the United States and transferred to the VI, including Caribbean Basin Initiative (“CBI”) funds. These CBI funds are collected from excise taxes on rum imported into the U.S. from sources other than the VI and Puerto Rico. For this report, only those funds generated from VI rum exports to the U.S. were considered since it is these revenues that comprise the Matching Fund Revenues and are pledged to secure the Bonds.

Data Verification

Since Matching Fund Revenues secure the Bonds, it is the flow of these funds that was the focus of our data verification efforts. Specifically, our objective was to confirm that the Matching Fund Revenues collected by Customs and eligible for transfer to the VI Government equaled the funds actually transferred to the VI Government. Confirming this flow of funds is complicated by the fact that, as described above, revenues are subject to an advance and adjustment process. The following sources were used to document this process and were the primary components of the verification process:

1. **Interior letters to Treasury requesting the annual transfer of Matching Fund Revenues to the VI.** These letters provide three central pieces of information:
 - a) estimate of the annual base advance of VI excise tax revenues,
 - b) the adjustment to be made to the base advance based after verification of the actual excise taxes collected in the second preceding FY; and
 - c) the adjusted amount to be transferred to the Escrow Account held by the Special Escrow Agent on behalf of the VI Government.
2. **TTB Monthly Cover-Over Reports.** These reports document the amount of federal excise taxes collected monthly by the TTB and eligible for transfer to the VI, based on the cover-over rate. These reports provide a record of the amounts the VI actually earned through the federal excise tax collected on rum in a given month. The reports detail the four components of the Virgin Islands' total net monthly rum earnings, which are defined below:
 - a) Bulk Spirits collections - revenue collected from bulk rum purchases;
 - b) Customs collections - Customs collections on cased rum,
 - c) Adjustment to Bulk - correction applied to account for discrepancies discovered in past Bulk Spirits collections calculations; and
 - d) Adjustment to Customs - correction applied to account for discrepancies discovered in past Customs collections calculations.
3. **Bank Statements.** The annual Matching Fund transfer is deposited into the Escrow Account. Bank statements for this account provide a record that the transfer amount requested by the Interior was in fact received on behalf of the VI Government.

In addition to these documents, we also collected information from OMB. OMB records information associated with the federal excise tax revenue collection process and provided a series of spreadsheets that it uses to track rum excise tax revenues and shipments. In preparing its estimate of federal excise taxes to be available for transfer to the VI, OMB reviews historical rum shipments and earnings and projected rum shipments and sales for the next fiscal year prepared by Cruzan. Although the Governor uses OMB's estimate in making annual transfer requests to Interior, it is ultimately Interior that determines the amount of the advance that is transferred. Therefore, a verification of OMB's forecasts and subsequent requests was not performed. OMB's information did, however, provide a supplement to other data sources.

Verification Findings

Table 1 summarizes the data received and used for the Matching Fund Revenue verification.

Table 1
Inventory of Data Received, FY 1992 – FY2008

| Fiscal Year | Interior Advance Request Letter | Monthly Cover-Over Letters^{1/} | Bank Statement |
|--------------------|--|--|-----------------------|
| 1992 | √ | √ | |
| 1993 | √ | √ | |
| 1994 | √ | √ | |
| 1995 | √ | √ | √ |
| 1996 | √ | √ | √ |
| 1997 | √ | √ | √ |
| 1998 | √ | √ | |
| 1999 | √ | √ | √ |
| 2000 | √ | √ | √ |
| 2001 | √ | √ | √ |
| 2002 | √ | √ | √ |
| 2003 | √ | √ | √ |
| 2004 | √ | √ | √ |
| 2005 | √ | √ | √ |
| 2006 | √ | √ | √ |
| 2007 | √ | √ | √ |
| 2008 | √ | √ | √ |

^{1/}Cover-Over Letters for FY 1990 and FY 1991 also were reviewed so that FY 1992 and FY 1993 advances could be verified.

It also should be noted that we reviewed data from the sources above for years prior to the verification period. This review, while not formally included in our data verification, did not present any information that contradicts our verification findings.

Verification Questions and Findings

Verification Questions

In order to verify the federal excise taxes collected and the Matching Fund Revenues transferred to the VI Government, we addressed the following questions for the FY 1992 through FY 2008 period:

1. For each year, what was the difference between the base advance for a given year and the actual earnings for that year, as recorded in TTB's Monthly Cover-Over Reports? We assumed that the difference for each year would be used to adjust the base advance in the second fiscal year immediately following.
2. Do annual funds authorized for transfer to the VI equal the base advance for a given year adjusted by the difference discussed in item one, for two fiscal years earlier?
3. Are the annual transfer amounts authorized by Interior equal to deposits transferred to VI Escrow account?

Verification Findings

Our findings with regard to these questions are as follows:

1. In order to verify actual earnings, we compiled data from TTB's Monthly Cover-Over Reports. The earnings figure used for Matching Fund Revenue calculations, according to TTB, is the "Total" figure (i.e. the sum of Bulk Spirits, Customs, Adjustment to Bulk and Adjustment to Customs) reflected in the chart below. Note that the cover-over rate increased from \$10.50 to \$11.30 per proof gallon at the beginning of FY 1995, declined to \$10.50 in FY 1999, and increased to \$13.25 in FY 2000 and remains at that rate today.

Table 2
TTB Monthly Cover-Over Reports
Components of Matching Fund Revenues, FY 1990-FY 2008

| Fiscal Year | (a) Bulk Spirits (\$) | (b) Customs (\$) | (c) Adjustment to Bulk (\$) | (d) Adjustment to Customs (\$) | TOTAL (\$) |
|-------------|--------------------------|---------------------|--------------------------------|-----------------------------------|---------------|
| 1990 | 28,735,178.45 | 8,185.21 | 221,062.69 | 0 | 28,964,426.35 |
| 1991 | 27,319,420.71 | 1,505.72 | 198,293.02 | 0 | 27,519,219.45 |
| 1992 | 27,943,258.16 | 15.03 | 586,594.47 | -3.53 | 28,529,864.13 |
| 1993 | 30,633,882.04 | 19.44 | -1,238,291.98 | 62.22 | 29,395,671.72 |
| 1994 | 29,782,689.33 | 59.63 | 545,373.27 | 0 | 30,328,122.23 |
| 1995 | 41,002,332.97 | 9,692.90 | 11,080.84 | 0 | 41,023,106.71 |
| 1996 | 43,579,475.37 | 16,145.29 | -954,413.99 | 0 | 42,641,206.67 |
| 1997 | 46,020,134.23 | 1,987.83 | -398,421.88 | 0 | 45,623,700.18 |
| 1998 | 50,239,651.31 | 15,255.34 | 53,216.22 | 0 | 50,308,122.87 |
| 1999 | 50,661,915.08 | 27,649.87 | 457,782.24 | -7361.72 | 51,139,985.47 |
| 2000 | 58,947,063.81 | 11,136.58 | 3,732,477.89 | 0 | 62,690,658.28 |
| 2001 | 66,341,451.53 | 7227.61 | 1,743,039.50 | 0 | 68,091,718.64 |
| 2002 | 63,310,703.51 | 19.63 | -2,974,189.24 | 0 | 60,336,533.90 |
| 2003 | 64,106,256.03 | 3.49 | -3403.88 | 0 | 64,102,855.64 |
| 2004 | 65,316,014.38 | 8.77 | 9,684,513.20 | 0 | 75,000,536.35 |
| 2005 | 74,278,805.73 | 1236.48 | 845,567.30 | 0 | 75,125,609.51 |
| 2006 | 76,126,242.64 | 3786.94 | -5,250,675.54 | 0 | 70,879,354.04 |
| 2007 | 75,885,170.48 | 26.72 | 10,825,147.57 | 0 | 86,710,344.77 |
| 2008 | 85,769,141.32 | 2,084.45 | 6,167,304.61 | 0 | 91,938,530.48 |

Source: TTB Monthly Cover-Over Letters, FY 1990 - FY 2008.

- (a) Bulk Spirits - revenue collected from bulk rum purchases, calculated at the \$10.50 per proof gallon rate through FY1994, at the \$11.30 rate through FY1998, at the \$10.50 rate in FY1999, and then at \$13.25 for FY 2000 through FY 2008.
- (b) Customs - Customs collections on cased rum, computed at the 10.50 per proof gallon rate through FY1994, at the \$11.30 rate through FY1998, at the \$10.50 rate in FY1999, and at \$13.25 for FY 2000 through FY 2008.
- (c) Adjustment to Bulk - correction applied to account for discrepancies in past Bulk Spirits collections calculations. The very large adjustment in 2004 was the result of a year end adjustment of earlier monthly revenues from a \$10.50 rate to a \$13.25 rate.
- (d) Adjustment to Customs - correction applied to account for discrepancies discovered in past Customs collections calculations.
- (e) The large difference in FY2007 and FY2008 is due to collections taking place at the \$10.50 cover-over rate for several months in each period until the \$13.25 cover-over rate to be renewed. Once the rate was renewed, the difference for those months was forwarded by Treasury to the VI.

As described in Table 2 above, Adjustments to Bulk and Adjustments to Customs are corrections applied to account for reporting discrepancies in past calculations. Typically, these adjustments result from TTB audits of past reports. There have been years when relatively large adjustments

were applied, as in FY1993, FY2000, FY2001 and FY2002. The FY2000 adjustment is the result of a change in the portion of the excise tax, or cover-over rate, from \$10.50 to \$13.25 during the fiscal year. The adjustments in FY1993, FY2001 and FY2002 were corrections to past calculations.

For each year, the difference between total earnings and the base advance for that year represents the amount by which projected revenues differed from actual Matching Fund Revenues. This difference is used two fiscal years later to adjust the current FY base advance amount. Table 3 details these differences, and the fiscal years in which they were applied as an adjustment. For example, the FY2002 advance of \$60,121,000 was \$215,534 greater than actual collections during that fiscal year. Thus, when the FY2004 advance was requested an adjustment of that amount was made, decreasing the size of the FY2004 advance payment.

Table 3
Components of Annual Adjustment Applied to Matching Fund Revenues
FY 1990 through FY 2008
Base Advances, Actual Excise Tax Collections and Subsequent Differences

| FY In Which Adjustment Applied | Adjustment From FY | Projected Matching Fund Revenues (\$) ^{1/} | Totals from Cover-Over Reports (\$) ^{2/} | Expected Adjustment (\$) |
|--------------------------------|--------------------|---|---|--------------------------|
| 1992 | 1990 | 29,000,000.00 | 28,964,426.35 | -35,573.65 |
| 1993 | 1991 | 29,000,000.00 | 27,519,219.45 | -1,480,780.55 |
| 1994 | 1992 | 28,500,000.00 | 28,529,864.13 | 29,864.13 |
| 1995 | 1993 | 29,000,000.00 | 29,395,671.72 | 395,671.72 |
| 1996 | 1994 | 30,928,800.00 | 30,328,122.23 | -600,677.77 |
| 1997 | 1995 ^{3/} | 52,500,000.00 | 41,023,106.71 | -11,476,893.29 |
| 1998 | 1996 | 43,628,000.00 | 42,641,206.67 | -986,793.33 |
| 1999 | 1997 | 46,150,000.00 | 45,623,700.18 | -526,299.82 |
| 2000 | 1998 ^{4/} | 46,515,000.00 | 50,308,122.87 | 3,793,122.87 |
| 2001 | 1999 | 43,634,997.00 | 51,139,985.47 | 7,504,988.47 |
| 2002 | 2000 ^{5/} | 64,432,940.00 | 62,690,658.28 | -1,742,281.72 |
| 2003 | 2001 | 67,610,513.00 | 68,091,718.64 | 481,205.64 |
| 2004 | 2002 ^{5/} | 60,121,000.00 | 60,336,533.90 | 215,533.90 |
| 2005 | 2003 | 70,397,250.00 | 64,102,855.64 | -6,294,394.36 |
| 2006 | 2004 | 65,849,003.00 | 75,000,536.35 | 9,151,533.35 |
| 2007 | 2005 | 66,961,000.00 | 75,125,609.51 | 8,164,609.51 |
| 2008 | 2006 | 78,712,000.00 | 70,879,354.04 | -7,832,645.96 |
| 2009 | 2007 | 71,295,000.00 | 86,710,344.77 | 15,415,344.77 |
| 2010 | 2008 | 73,164,000.00 | 91,938,530.48 | 18,774,530.48 |

Source: ^{1/} Interior letters to Treasury and VI OMB.

^{2/} TTB Monthly Cover-Over Reports.

^{3/} The large over-estimate in 1994 was the result of uncertainty over the impact of the Todhunter acquisition of VIRIL in 1994.

^{4/} The VI requested and received an early payment of \$3.8 million in December 1998 in recognition of the large forthcoming adjustment. This amount was the equivalent of the adjustment expected to be made in FY2000. Since this was paid in advance, there was no expected adjustment in FY2000.

^{5/} There was an additional adjustment in FY2000, due to an increase in the excise tax. In FY2000, the initial request was based on \$10.50 cover-over rate, and an additional request was made based on the increased \$13.25 cover-over rate.

2. Once we determined these differences, we verified that these differences were, in fact, the amounts used to adjust annual base advances for the relevant fiscal year. In order to do this, we compared these differences to information included in Interior's letters to Treasury.

Table 4
Differences Between Expected Adjustments and Actual Adjustments
FY 1992 through FY 2008

| Fiscal Year | Projected Matching Fund Revenues (\$) ^{1/} | Actual Advance (\$) ^{2/} | Actual Adjustment (\$) | Expected Adjustment (\$) ^{3/} | Difference Between Expected and Actual Adjustment (\$) |
|--------------------|---|-----------------------------------|------------------------|--|--|
| 1992 | 28,500,000.00 | 28,651,241.00 | 151,241.00 | -35,573.66 | 186,814.66 |
| 1993 | 29,000,000.00 | 27,519,220.00 | -1,480,780.00 | -1,480,780.55 | 0.55 |
| 1994 | 30,928,800.00 | 30,959,601.00 | 30,801.00 | 29,864.13 | 936.87 |
| 1995 | 52,500,000.00 | 52,707,921.00 | 207,921.00 | 395,671.72 | -187,750.72 |
| 1996 ^{4/} | 43,628,000.00 | 43,027,653.00 | -600,347.00 | -600,677.77 | 330.77 |
| 1997 | 46,150,000.00 | 34,673,107.00 | -11,476,893.00 | -11,476,893.29 | 0.29 |
| 1998 | 46,515,000.00 | 45,596,124.00 | -918,876.00 | -986,793.33 | -67,917.33 |
| 1999 | 43,635,000.00 | 43,108,700.00 | -526,300.00 | -526,299.82 | -0.18 |
| 2000 | 64,432,940.00 | 64,433,000.00 | 60.00 | 0.00 | 60.00 |
| 2001 | 67,610,513.00 | 75,116,000.00 | 7,505,487.00 | 7,504,988.47 | 498.53 |
| 2002 | 60,121,000.00 | 58,372,000.00 | -1,749,000.00 | -1,742,341.72 | -6,658.28 |
| 2003 | 70,397,250.00 | 70,878,000.00 | 480,750.00 | 481,205.64 | -455.64 |
| 2004 ^{5/} | 65,849,003.00 | 63,097,000.00 | -2,752,000.00 | 215,533.90 | -2,967,533.90 |
| 2005 ^{5/} | 66,961,000.00 | 63,635,053.00 | -3,326,000.00 | -6,294,394.36 | 2,968,394.36 |
| 2006 | 78,712,000.00 | 87,864,078.00 | 9,152,000.00 | 9,151,533.35 | 466.65 |
| 2007 | 71,295,000.00 | 79,459,206.00 | 8,165,000.00 | 8,164,609.51 | 390.49 |
| 2008 | 73,164,000.00 | 65,330,477.16 | -7,833,000.00 | -7,832,645.96 | -354.04 |

Source: ^{1/}, ^{2/} Interior letters to Treasury and VI OMB.

^{3/} Derived from TTB Monthly Cover-Over Reports.

^{4/} FY 1996's advance was received in two stages.

^{5/} The expected adjustments for FY 2004 and FY 2005 differs from data in Table 3 due to a revision in the Projected Matching Funds Revenue from \$63,089,000 to \$60,121,000.

As indicated in Table 4, actual adjustments are reasonably close to expected adjustments for most years in the verification period. There are notable exceptions, however, specifically in FY 1992, FY 1995 and FY 2005. In reviewing data for these years, we have found the following possible explanations for these differences.

- a. The adjustment used for the FY 1992 advance was derived from FY 1990 earnings. Earnings data provided by OMB suggest that there may have been an adjustment to December 1989

earnings of approximately \$186,816. OMB's records of earnings for FY 1989 reflect the unadjusted, bulk spirits revenue from TTB's Monthly Cover-Over Reports. The report that we received from TTB for this month indicates bulk spirits revenue of \$2,509,631.15, which is \$186,815.85 less than OMB's record of \$2,696,447.00. While there is no TTB documentation to confirm an adjustment specifically in this amount, the fact that OMB's figures imply an adjustment so close to the amount in question suggests that a later adjustment to December 1989 earnings was made.

- b. The difference in question for FY 1995, which is based on FY 1993 actual earnings, suggests that perhaps the December 1989 adjustment discussed in item a, above, was applied in FY 1993. As indicated by the example Monthly Cover-Over Report, detailed reasons for earnings adjustments are not specified by TTB. As a result, TTB's adjustment for a given month could be comprised of a number of individual component adjustments. For FY 1993, a net total adjustment of -\$1,238,229.76 was applied. The fact that the difference in question for the FY 1995 adjustment (-\$187,750.72) is so close to the FY 1992 adjustment discrepancy (\$186,414.66) suggests that TTB applied a FY 1990 earnings adjustment in FY 1993 that was approximately \$187,000.

The aggregate of differences between the FY 1992 through FY 2008 period is minimal, and is equal to less than \$73,000. This is an immaterial difference, given the magnitude of earnings figures.

3. The bank statements that we have received match the Interior request letters. While there are three years in the verification period for which bank statements were not available, we did not consider this material. Based on the documentation we do have, there is no reason to believe that Matching Fund transfers officially requested by the Department of Interior were not deposited into the VI Government Escrow Account.

Revenue Projections

Introduction: The Rum Industry

The U.S. Spirits Industry

The distilled spirits industry generally embarked on a period of expansion in the past two decades. Previously U.S. consumption had been declining steeply since the early 1980s. By 1995 the volume of consumption had fallen to 137.3 million 9-liter cases, 28% less than the 190.9 million cases consumed in 1980. The year 1995 proved to be the trough of this cycle however. Since then, consumption has been steadily increasing, reaching 185.5 million 9-liter cases in 2008, following 2.1% growth over 2007. Industry projections are for further growth, of 1.3% for 2009, and averaging 1.8% annually over the next five years.³

Two broad socio-economic factors have been at work over this time. First, a growing health-consciousness among American consumers in the 1970s led to a reduction in alcohol consumption generally, and to a shift to beer and wine as hard liquor alternatives. Then, strong economic expansions boosted levels of disposable income. Consumer spending generally surged, and consumption shifted to more expensive, premium products. This refinement in tastes of Americans has been reflected in a shift in the composition of the distilled spirits market. Demand has shifted from whiskeys to non-whiskeys, particularly to vodka and rum.

This transition has mirrored the nation's demographics as the baby boom generation dominated consumption, replacing the habits of the previous generations. Subsequently, younger cohorts with more disposable income have driven the bar and restaurant market for premium cocktails.

The Rum Category

The rum industry's share of the U.S. distilled spirits market has grown steadily since 1992, reaching 13.3% in 2008. U.S. rum consumption has been rising for thirteen consecutive years since 1995. In 2008, U.S. rum consumption reached 24.6 million 9-liter cases, up 2.7% from 2007. As has also occurred with vodkas, recent growth has been in premium brands and in flavored varieties.

Rum is a highly concentrated market, with the top four brands accounting for more than 70% of U.S. consumption. While Bacardi remains the leading rum, selling 9.4 million 9-liter cases in 2008, Captain Morgan, the number two brand, has been growing more quickly and has thus seen significant gains in market share. In 2008, with 6.4 million 9-liter cases, Captain Morgan's share of U.S. rum consumption amounted to 26.1%, up from just 21.2% in 2002. Cruzan's leading brand has also been gaining market share. With average annual growth rate of 11.5% between 2002 and 2008, its market share has increased from 1.8% to 2.6%.⁴

Rum Production in the VI

Cruzan, now owned by Fortune Brands after acquisition from Pernod Ricard, is currently the only rum producer in the U.S. Virgin Islands.⁵ Most of the rum produced in the Cruzan plant is

³ *Adams Liquor Handbook (2008/2009)*.

⁴ *Adams Liquor Handbook (2008/2009)*.

⁵ Pernod Ricard, the second largest spirit company in the world, became the owner of Cruzan VIRIL when it acquired Vin & Sprit from the Swedish government in 2008.

exported to the U.S. mainland in bulk; the Cruzan branded rum is only a small percentage of total production. Bulk rum is sold to local and regional bottlers and rectifiers for sale under a variety of private label and regional brand names, and to certain other bottlers for use in prepared cocktails, liqueurs and drink mixes. Cruzan is the largest supplier of bulk rum to the U.S. market. By virtue of its smaller size and lower margins, the bulk market has proven unattractive to aggressive expansion by Bacardi and others and Cruzan maintains a market share of 85 to 90%. While tariff protection under the Caribbean Basin Initiative ("CBI") on high-end, branded rums has been eliminated, low value, bulk rum from the Caribbean continues to be protected. However, there are no guarantees that this segment will continue to benefit from preferential treatment. Over the long-term, increased trade liberalization is likely to intensify competition in the bulk rum market, especially from countries in South America, which have large indigenous sugar cane industries, inexpensive fuel, low wages, and substantial rum and alcohol production capacity.

We do not, however, anticipate a significant change in this competitive market structure. Cruzan has occupied a stable niche in the overall rum market for many years. Various US trade agreements, such as the CBI, have resulted in advantages for the Virgin Islands, and also for Puerto Rico, in exporting rum to the US. The fact that Cruzan is currently operating at less than 80% capacity and has a significant level of productive capacity in relation to the size of the bulk market renders new entry by small producers unattractive at present. The security of Cruzan's future place in the rum market is further enhanced by the fact that Virgin Islands Rum has name recognition, or "market cachet", which should help secure future demand.

Cruzan also enjoys certain cost advantages that will help it remain competitive. These include a molasses subsidy provided by the VI Government and a range of tax incentives currently in place. According to Cruzan the molasses subsidy represents a significant advantage to operating in the VI. It allows Cruzan to purchase molasses at prices competitive with the costs of its Caribbean competitors. Given the Government's continued need for Matching Fund Revenues, and the Government's long-standing commitment to the rum industry, the Legislature has consistently authorized the subsidy every year since 1967. Additionally, the Economic Development Commission ("EDC") extends a 90% income tax abatement benefit to Cruzan as a means of promoting economic growth. Cruzan was first granted this tax abatement in 1987. We assume these tax incentives will remain in place.

Another significant tax advantage stems from Cruzan's use of citrus byproducts. End products are taxed based on ingredients rather than on alcohol content. The use of fortified citrus wine instead of distilled spirits results in an excise tax saving.⁶

Captain Morgan

In mid-2008, Diageo announced its plans begin the production of all the rum used in Captain Morgan branded products sold in the U.S. in the Virgin Islands, with a view to starting rum sales from the Virgin Islands to continental U.S. in 2012. The VI government has agreed to provide a range of incentives to support such production, including tax incentives, molasses subsidy payments, marketing and production funds, and grant financing for the acquisition and construction of the new plant and warehouse facility. Diageo, in turn, has agreed to produce all of the rum used to manufacture Captain Morgan branded products sold in the U.S., in the new St Croix distillery for at least 30 years. Diageo's production of rum in the Virgin Islands will not

⁶ Though two and one-half gallons of citrus are required to replace one gallon of spirits, its excise tax of \$1.57 per gallon compares favorably with the \$13.50 imposed on spirits.

only boost the VI's share of the U.S. rum market from 13% to more than 35%, it also will help Diageo to continue positioning Captain Morgan into non-price sensitive premium segment.

Previous Revenue Forecasts

Forecast of April 1998

In early 1998, in conjunction with the Public Finance Authority's \$541 million Revenue and Refunding Bonds, WEFA (now IHS Global Insight) produced a report verifying and projecting revenues from rum shipments to the US. We projected that Matching Fund Revenues would average from \$45.8 million to \$49.1 million from FY1998 to FY2003. These revenues assumed a cover-over rate of \$11.30. At a \$10.50 rate revenues were projected to average from \$43.1 to \$46.2 million.

At that time a conservative estimate of U.S. rum consumption was adopted. The available data at the time, through 1996, did not provide sufficient evidence of an end to the downward trend in consumption observed from 1985 through 1994. Consumption had increased in 1995 and 1996 in concert with a very strong U.S. economy. Econometric analysis suggested a continued strong negative trend was temporarily offset by strong income growth. *Adams* likewise projected growth of less than one half of one-percent for 1997.

At this time, however, the available data for 1997 through 2003 led us to revise the forecast. Econometric analysis with the new historical data, which reflects both the continued robust U.S. economic growth, and the increasing popularity in the U.S. of tropical drinks, suggests continued positive growth going forward as is discussed further herein.

Forecast of November 2004

In late 2004, Global Insight (now IHS Global Insight) produced a report verifying and projecting revenues from rum shipments to the United States, which updated the 1998 WEFA report. Data on rum consumption through 2003 had shown strong growth, averaging 6.8% per year over the previous five years. Our projections, at that time, had consumption growth slowing, to an average of 3.8% per year between 2004 and 2009. With data now available through 2008, IHS Global Insight growth projections in the 2004 forecast were low due to stronger than expected economic growth in the United States, which kept consumption rates at higher levels. For the three years of new data, average annual growth in consumption was 4.9%, while our projections showed growth of 3.7%.

Model Development

U.S. Rum Consumption

To forecast VI rum excise tax revenues, we first must forecast U.S. rum consumption. A demand- rather than a supply-based model is a more conservative approach for projecting future growth and relies on actual recent experience. Furthermore, since rum must actually be bottled in order to generate tax revenue for the VI, and no revenues are generated simply by sending shipments to the US, it is reasonable to link revenues as closely as possible to actual demand.

Using rum consumption data for the 1985 to 2008 period (see Table 5), we developed a regression model that projects U.S. rum consumption as a function of real personal income and a time trend. The time trend allows us to account for the rapid surge in popularity of rum consumption between 1995 and 2005.

Table 5
U.S. Consumption of Rum, 1985-2008
(9-Liter Cases)

| Year | Rum Consumption | Growth Rate |
|------|-----------------|-------------|
| 1985 | 14,118,377 | |
| 1986 | 13,052,851 | -7.5% |
| 1987 | 13,450,740 | 3.0% |
| 1988 | 13,334,940 | -0.9% |
| 1989 | 13,191,117 | -1.1% |
| 1990 | 13,564,115 | 2.8% |
| 1991 | 12,324,756 | -9.1% |
| 1992 | 11,890,375 | -3.5% |
| 1993 | 11,927,692 | 0.3% |
| 1994 | 11,712,877 | -1.8% |
| 1995 | 12,092,860 | 3.2% |
| 1996 | 13,048,960 | 7.9% |
| 1997 | 13,539,490 | 3.8% |
| 1998 | 14,036,200 | 3.7% |
| 1999 | 15,567,720 | 10.9% |
| 2000 | 16,991,520 | 9.1% |
| 2001 | 17,869,530 | 5.2% |
| 2002 | 18,562,370 | 3.9% |
| 2003 | 19,509,380 | 5.1% |
| 2004 | 20,799,770 | 6.6% |
| 2005 | 22,040,000 | 6.0% |
| 2006 | 22,873,000 | 3.8% |
| 2007 | 23,916,000 | 4.6% |
| 2008 | 24,557,000 | 2.7% |

Source: *Adams Media Liquor Handbook, 2008/2009.*

The model we developed using this consumption data has an R-square of 0.99, meaning that it explains 99% of the variation in rum consumption over the 1985 through 2008 time period. In terms of predictive ability, this R-square indicates a strong model with a high level of statistical significance. This regression model is expressed by the following equation⁷:

Log (U.S. Rum Consumption) =

$$0.91797 * \log(\text{Real U.S. Personal Income}_{t-1}) + 0.03555 * \text{trend} + 8.15555$$

The equation was adjusted using the Cochrane-Orcutt iterative method to correct for autocorrelation, a statistical relation that would otherwise bias coefficient estimates in this case.

Rum consumption was found, as expected, to be positively correlated with income in the previous year. The coefficient of 0.91797 in the equation indicates its demand elasticity with respect to income. That is, a 1% increase in real income leads to a 0.92% increase in consumption. The positive coefficient on the trend variable implies that, sans real income growth, consumption would increase over time, by 0.04% per year.

Once this equation was developed, we used it to project consumption for the 2009 through 2038 time period. Our consumption projections and corresponding growth rates are included in Table 6 below. Graph 2 illustrates actual and projected U.S. rum consumption.

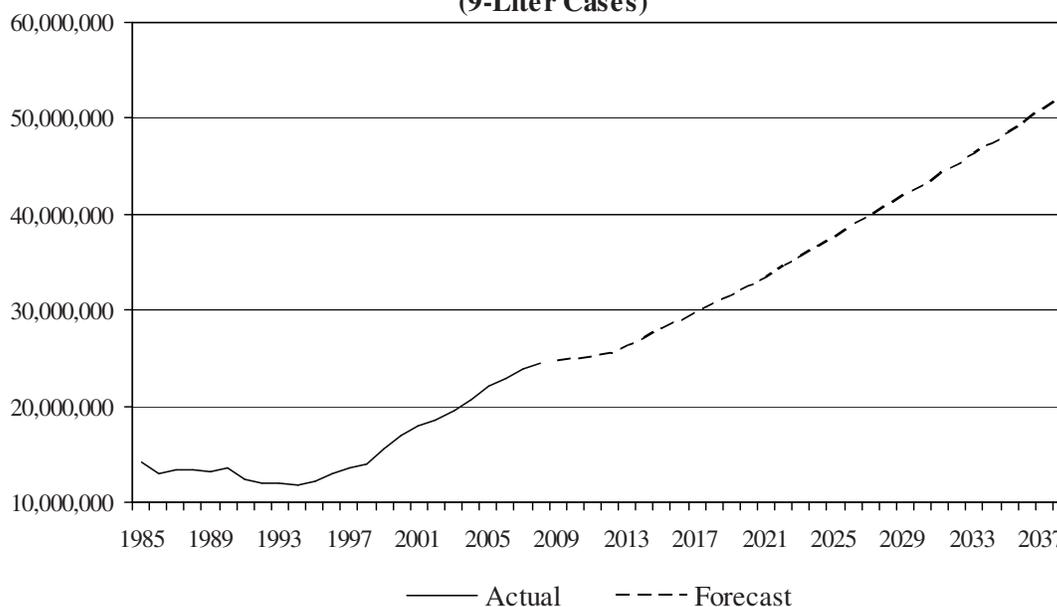
⁷ U.S. rum consumption is measured in 9-liter cases and U.S. real personal income is measured in billions of chained 2000 U.S. dollars.

Table 6
U.S. Consumption-Based Model
Projected U.S. Rum Consumption, 2009-2038
(9-Liter Cases)

| Year | Projected Consumption | Growth Rate |
|-------------|------------------------------|--------------------|
| 2009 | 24,660,106 | 0.4% |
| 2010 | 24,957,748 | 1.2% |
| 2011 | 25,009,326 | 0.2% |
| 2012 | 25,438,670 | 1.7% |
| 2013 | 26,253,956 | 3.2% |
| 2014 | 27,115,233 | 3.3% |
| 2015 | 28,001,787 | 3.3% |
| 2016 | 28,856,470 | 3.1% |
| 2017 | 29,701,138 | 2.9% |
| 2018 | 30,540,370 | 2.8% |
| 2019 | 31,424,933 | 2.9% |
| 2020 | 32,408,066 | 3.1% |
| 2021 | 33,458,957 | 3.2% |
| 2022 | 34,537,883 | 3.2% |
| 2023 | 35,575,992 | 3.0% |
| 2024 | 36,600,641 | 2.9% |
| 2025 | 37,621,246 | 2.8% |
| 2026 | 38,678,461 | 2.8% |
| 2027 | 39,753,053 | 2.8% |
| 2028 | 40,823,927 | 2.7% |
| 2029 | 41,895,591 | 2.6% |
| 2030 | 42,991,233 | 2.6% |
| 2031 | 44,122,180 | 2.6% |
| 2032 | 45,193,347 | 2.4% |
| 2033 | 46,272,161 | 2.4% |
| 2034 | 47,368,401 | 2.4% |
| 2035 | 48,520,211 | 2.4% |
| 2036 | 49,717,103 | 2.5% |
| 2037 | 50,948,645 | 2.5% |
| 2038 | 52,226,128 | 2.5% |

Graph 2

**U.S. Rum Consumption
(9-Liter Cases)**



Very weak growth is forecast over the next few years, a result of the current protracted US recession and expected slow recovery. Consumption will regain some momentum in 2013, however, when growth will exceed 3%. Between 2009 and 2012 we expect rum consumption in the U.S. will grow at an average annual rate of 0.9%, reaching 25.5 million 9-liter cases. This is a more conservative projection than that of the 2008 Adams Liquor Handbook, which shows rum consumption growing 2.5% annually, to reach 27.1 million 9-liter cases by 2012.

Base Projection: Constant Market Share

Assumptions

Under our baseline forecast, we assume that Cruzan and Diageo will maintain a constant share of the U.S. rum market. Ultimately each plant's production capacity is reached. The underlying assumptions are the persistence of the tax incentives and subsidies provided by the VI and that both plants will remain in the Virgin Islands until 2038. It is also assumed that there will be no adverse impact on Cruzan production owing to the presence of the Diageo plant, and that the U.S. demand for Cruzan rum is unaffected by the location of Diageo production.

FY2008 was an unusually good year for VI rum; bulk rum shipments from the VI to the U.S. amounted 7.12 million proof gallons, up 22% from FY2007. This represents 15.3% of total U.S. rum consumption that year, a significant jump from the 12.9% share recorded in FY2007. To correct for the recent volatility in the VI rum shipments, under our baseline forecast we use the VI's average share of the U.S. market over the last three years (14.4%). That is we assume that Cruzan will be able to maintain a share of 14.4% of the U.S. market until the plant reaches capacity (8.9 million proof gallons) in FY2021. After reaching capacity, production at the plant will remain constant until FY2038.

Meanwhile, in 2008, Captain Morgan shipments by Diageo to the U.S. amounted to 12.16 million proof gallons, or 26.1% of U.S. rum consumption. We assume that Diageo will be able to maintain this share of the U.S. market until it reaches its capacity of 18 million proof gallons in FY2024.

One important thing to note, however, is that in FY2012 shipments from the Diageo plant will be significantly less than capacity as the plant starts up. The plant is expected to come on stream at the end of 2010. It will produce throughout the 12 months of 2011, when it will distill approximately 13.3 million proof gallons of rum, all of which will be stored in a warehouse to mature for 12 months. After 12 months of maturation about 10% of the rum will evaporate and the remaining 12 million proof gallons will be blended into product for sale in 2012. Because the distilled product will be available for shipment only in the final three quarters of fiscal year 2012 (which runs from October 2011 to September 2012), we assume that shipments in this initial fiscal year will amount to just 9 million proof gallons.

Table 7
Projected Shipments - Baseline Scenario, FY 2009-2038

| Fiscal Year | Projected Shipments | | |
|-------------|---------------------|----------------|-------------|
| | Cruzan | Captain Morgan | Total |
| 2009 | \$6,716,166 | | \$6,716,166 |
| 2010 | 6,797,228 | | 6,797,228 |
| 2011 | 6,811,276 | | 6,811,276 |
| 2012 | 6,928,207 | \$9,000,000 | 15,928,207 |
| 2013 | 7,150,250 | 12,997,487 | 20,147,737 |
| 2014 | 7,384,818 | 13,423,877 | 20,808,696 |
| 2015 | 7,626,271 | 13,862,782 | 21,489,052 |
| 2016 | 7,859,043 | 14,285,908 | 22,144,951 |
| 2017 | 8,089,088 | 14,704,075 | 22,793,164 |
| 2018 | 8,317,652 | 15,119,552 | 23,437,204 |
| 2019 | 8,558,563 | 15,557,471 | 24,116,033 |
| 2020 | 8,826,318 | 16,044,188 | 24,870,506 |
| 2021 | 8,900,000 | 16,564,450 | 25,464,450 |
| 2022 | 8,900,000 | 17,098,592 | 25,998,592 |
| 2023 | 8,900,000 | 17,612,526 | 26,512,526 |
| 2024 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2025 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2026 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2027 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2028 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2029 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2030 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2031 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2032 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2033 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2034 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2035 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2036 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2037 | 8,900,000 | 18,000,000 | 26,900,000 |
| 2038 | 8,900,000 | 18,000,000 | 26,900,000 |

Revenue Projection

Assuming that the current federal excise tax rate realized by the VI Government, \$13.25 per proof gallon, remains unchanged, we can calculate future revenues from Cruzan and Diageo rum, based on the shipment projections. These results are shown in Table 8 below.

**Table 8
Projected Total Revenues (Dollars), FY 2009-2038**

| Fiscal Year | Projected Revenues - Baseline Scenario | | |
|--------------|--|------------------------|------------------------|
| | Cruzan | Captain Morgan | Total |
| 2009 | \$88,989,198 | | \$88,989,198 |
| 2010 | 90,063,276 | | 90,063,276 |
| 2011 | 90,249,405 | | 90,249,405 |
| 2012 | 91,798,747 | \$119,250,000 | 211,048,747 |
| 2013 | 94,740,811 | 172,216,698 | 266,957,509 |
| 2014 | 97,848,843 | 177,866,373 | 275,715,216 |
| 2015 | 101,048,088 | 183,681,856 | 284,729,944 |
| 2016 | 104,132,323 | 189,288,275 | 293,420,597 |
| 2017 | 107,180,418 | 194,829,000 | 302,009,418 |
| 2018 | 110,208,894 | 200,334,063 | 310,542,957 |
| 2019 | 113,400,955 | 206,136,486 | 319,537,440 |
| 2020 | 116,948,718 | 212,585,492 | 329,534,210 |
| 2021 | 117,925,000 | 219,478,965 | 337,403,965 |
| 2022 | 117,925,000 | 226,556,339 | 344,481,339 |
| 2023 | 117,925,000 | 233,365,968 | 351,290,968 |
| 2024 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2025 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2026 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2027 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2028 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2029 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2030 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2031 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2032 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2033 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2034 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2035 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2036 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2037 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2038 | 117,925,000 | 238,500,000 | 356,425,000 |
| Total | \$3,329,259,675 | \$5,913,089,515 | \$9,242,349,189 |

Alternative Projection: Growing Market Share

In addition to our demand-based model, we produced an alternative, more optimistic forecast in which both Cruzan and Diageo increase their share of the U.S. rum market.

Under this scenario, we use the Total Revenue figures in TTB (OMB) reports to project future Matching Fund Revenues from Cruzan's bulk rum shipments. Future earnings are expressed as a function of U.S. real personal income as follows:⁸

Total Matching Fund Revenue =

$$0.01145 * \text{Real Personal Income} + 6.12082 * \text{Step (1995)} + 13.1604 * \text{Spike (2008)} - 40.7549$$

The model has an R-square 0.98, meaning that it explains 98% of the variation in Matching Fund revenues for the period between 1988 and 2008. A first order moving average term was included to capture the short-term dynamics of revenues.

Projected revenues from Cruzan's bulk rum shipments are shown in Table 9. As in the Baseline Projection the U.S. recession will result in sluggish income growth and weak increases in rum consumption and shipments until 2012. These revenues imply that Cruzan's market share of U.S. rum consumption will increase steadily from its current 12.9% to a peak of 14.9% in FY2019. In FY2019 the plant will reach its production capacity of 8.9 million proof gallons per year. As a result, revenues from Cruzan shipments are expected to remain constant between fiscal year 2018 and 2038. An increasing future VI market share is supported by the assumption that Cruzan's marketing efforts, which have been aimed at attracting "high-end" consumers, continue to be successful. It should be noted that part of the increase in Cruzan's market share of U.S. consumption is associated with Todhunter's 1994 acquisition of VIRIL and the subsequent expansion of Cruzan's production facilities.⁹

To project revenues from Diageo rum under this scenario, we first project Captain Morgan shipments using historical data for 1991-2008 from the Adam's Liquor Handbook. Captain Morgan shipments are expressed as a function of the previous year's U.S. rum consumption. Captain Morgan has been steadily increasing its share of the U.S. market. This model, which is expressed by the following equation, captures this trend.

Log (Captain Morgan) =

$$1.72167 * \log(\text{U.S. Rum Consumption}) - 13.5066$$

The equation was adjusted using the Cochrane-Orcutt iterative method to correct for autocorrelation and has an R-square 0.99. The coefficient of 1.72167 in the equation indicates a 1% increase in U.S. rum consumption leads to a 1.72% increase in Captain Morgan shipments. This means that Captain Morgan's share of the U.S. rum market will increase from its current 24.5% to a peak of 31.2% in FY2019. In FY2019, the Diageo plant will reach capacity and will

⁸ In the equation Step (1895) is a dummy variable that represents Todhunter's acquisition.

⁹ Note that this alternative model, like the consumption-based model also assumes that Cruzan will be able to maintain its current level of production, and will maintain its production facilities in the VI.

continue to produce 18 million proof gallons each year until FY2038. Again, as in the baseline forecast, during FY 2012, shipments of rum from the VI plant will be limited to 9 million proof gallons due to production constraints.

From the projected shipments we calculate future Matching Fund Revenues from Diageo using the \$13.25 cover over rate. These results are shown in Table 9.

Table 9
Alternative Revenue-Based Model
Projected Total Revenues (Dollars), FY 2009 - 2038

| Fiscal Year | Projected Revenues | | |
|--------------|------------------------|------------------------|------------------------|
| | Cruzan | Captain Morgan | Total |
| 2009 | \$80,347,400 | | \$80,347,400 |
| 2010 | 80,605,800 | | 80,605,800 |
| 2011 | 82,758,700 | | 82,758,700 |
| 2012 | 86,855,800 | \$119,250,000 | 206,105,800 |
| 2013 | 91,196,300 | 180,724,815 | 271,921,115 |
| 2014 | 95,677,100 | 191,052,717 | 286,729,817 |
| 2015 | 100,008,900 | 201,933,853 | 301,942,753 |
| 2016 | 104,301,200 | 212,661,951 | 316,963,151 |
| 2017 | 108,576,700 | 223,492,091 | 332,068,791 |
| 2018 | 113,094,400 | 234,474,955 | 347,569,355 |
| 2019 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2020 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2021 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2022 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2023 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2024 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2025 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2026 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2027 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2028 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2029 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2030 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2031 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2032 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2033 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2034 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2035 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2036 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2037 | 117,925,000 | 238,500,000 | 356,425,000 |
| 2038 | 117,925,000 | 238,500,000 | 356,425,000 |
| Total | \$3,301,922,300 | \$6,133,590,381 | \$9,435,512,681 |

Alternative Projection: Lower Cover-Over Rate

In fiscal year 2000, the cover-over rate for rum excise taxes paid to the Virgin Islands increased from \$10.50 to the current rate of \$13.25 per proof gallon. In this scenario, we calculate Matching Fun Revenues based on the shipment projections under our Baseline scenario, but assuming the cover-over rate reverts to \$10.50 over the forecast horizon. The results are shown in Table 10.

Table 10
Alternative 10.50 Cover-Over Rate Scenario
Projected Total Revenues (Dollars), FY 2009 - 2038

| Fiscal Year | Projected Revenues | | |
|--------------|------------------------|------------------------|------------------------|
| | Cruzan | Captain Morgan | Total |
| 2009 | \$70,519,742 | | \$70,519,742 |
| 2010 | 71,370,898 | | 71,370,898 |
| 2011 | 71,518,396 | | 71,518,396 |
| 2012 | 72,746,177 | \$94,500,000 | 167,246,177 |
| 2013 | 75,077,624 | 136,473,609 | 211,551,234 |
| 2014 | 77,540,592 | 140,950,711 | 218,491,303 |
| 2015 | 80,075,844 | 145,559,207 | 225,635,050 |
| 2016 | 82,519,954 | 150,002,029 | 232,521,983 |
| 2017 | 84,935,425 | 154,392,792 | 239,328,218 |
| 2018 | 87,335,350 | 158,755,295 | 246,090,645 |
| 2019 | 89,864,907 | 163,353,441 | 253,218,349 |
| 2020 | 92,676,343 | 168,463,975 | 261,140,318 |
| 2021 | 93,450,000 | 173,926,727 | 267,376,727 |
| 2022 | 93,450,000 | 179,535,212 | 272,985,212 |
| 2023 | 93,450,000 | 184,931,522 | 278,381,522 |
| 2024 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2025 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2026 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2027 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2028 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2029 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2030 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2031 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2032 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2033 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2034 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2035 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2036 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2037 | 93,450,000 | 189,000,000 | 282,450,000 |
| 2038 | 93,450,000 | 189,000,000 | 282,450,000 |
| Total | \$2,638,281,252 | \$4,685,844,521 | \$7,324,125,773 |

Conclusion

Our review of the records that document the Matching Fund Revenue collection and transfer process confirm that annual Matching Fund Revenues transferred to the VI during the FY 1992 through FY 2008 period were consistent with federal excise taxes collected from U.S. distillers on purchases of bulk VI rum and Customs Service duties levied on cased VI rum. The actual advances transferred to the Government are consistent with the projection and adjustment process as described by TTB and OMB. Specifically, actual advances received in each year are reasonably close to the base advances for that year adjusted by the difference between projected and actual earnings for two FYs earlier. While there are years in the verification period when actual transfers did differ from the transfer that would be expected using this projection and adjustment calculation, these differences are relatively small, and are, on balance, immaterial.

IHS Global Insight's Constant Market Share Scenario, which forecasts Matching Fund Revenues as a function of U.S. rum consumption, projects that both the Cruzan and Captain Morgan plants will have reached production capacity by fiscal year 2024. As a result, from that year forward, Matching Fun Revenues will amount to \$356 million a year. Under an alternative, more optimistic scenario, the Growing Market Share Scenario, Matching Fund Revenues amount to \$356 million annually from fiscal 2018 on. In scenarios the current U.S. recession results in slow growth in rum consumption and shipments over the next few years. Finally, under the Lower Cover-Over Rate Scenario, Matching Fund Revenues reach a peak of \$282.5 million per year in fiscal year 2024.

All scenarios assume that Cruzan and Diageo will maintain its operations in the VI until fiscal 2038, and will be able to maintain production levels to meet future demand. IHS Global Insight found that, given the economic incentives provided to Cruzan by the Government for maintaining operations in the VI, it was reasonable to assume that they will maintain their operations in the VI. Similarly, Diageo will receive significant incentives to produce all its U.S. distribution of Captain Morgan rum in the new St Croix distillery for 30 years starting in 2012.

APPENDIX H

DTC BOOK-ENTRY ONLY SYSTEM

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DTC BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2009A Bonds, payments of principal, premium, if any, and interest on the Series 2009A Bonds to DTC, its nominee, Participants, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2009A Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based on information furnished by DTC.

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series 2009A Bonds. The Series 2009A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2009A Bond will be issued for the Series 2009A Bonds in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U. S. securities brokers, and dealers, banks, trust companies, neand clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2009A Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for such Series 2009A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2009A Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2009A Bonds, except in the event that use of the book-entry system for the Series 2009A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2009A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

So long as a book-entry system is used for determining beneficial ownership of the Series 2009A Bonds, the Trustee is to send redemption notice to DTC or to Cede & Co., as partnership nominee for DTC. Any failure of DTC to advise any Participant, or of any Direct Participant or Indirect Participant to notify the actual purchaser of each Series 2009A Bond, or any such notice of its content or effect does not affect the validity of the redemption of the Series 2009A Bonds called for redemption or any other action premised on that notice. In the event of a call for optional redemption, the Authority's notification to DTC initiates DTC's standard call; and if a partial call, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2009A Bonds to be redeemed, and each such Participant then selects by lot the ownership interest in such Series 2009A Bonds to be redeemed. When DTC and its Participants allocate the call, the Beneficial Owners of the book-entry interests called are to be notified by the broker or other organization responsible for maintaining the records of those interests and subsequently credited by that organization with the process once the Series 2009A Bonds are redeemed.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2009A BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND OF ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2009A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2009A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2009A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners

will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirement as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2009A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2009A Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2009A Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Series 2009A Bonds, as partnership nominee for DTC, references herein to Bondholders or registered owners of the Series 2009A Bonds (other than under the caption “TAX MATTERS”) shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2009A Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2009A BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2009A BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2009A BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2009A BONDS; OR (vi) ANY OTHER MATTER.

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APPENDIX I

FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE AUTHORITY

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FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE AUTHORITY

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated July 9, 2009, is executed and delivered by the Virgin Islands Public Finance Authority (the "Authority") in connection with the issuance of its \$250,000,000 Virgin Islands Public Finance Authority Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project), Series 2009A Bonds (the "Series 2009A Bonds"). Capitalized terms used in this Certificate which are not otherwise defined herein shall have the respective meanings given to such terms in the Official Statement with respect to the Series 2009A Bonds, dated June 26, 2009 (the "Official Statement").

The Undertaking

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered for the benefit of the holders of the Series 2009A Bonds and delivered in order to assist the underwriters of the Series 2009A Bonds (the "Underwriters") in complying with the provisions of Section (b)(5)(i) of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

2. Disclosure. (a) So long as the Series 2009A Bonds are outstanding, the Authority shall provide certain financial and operating information ("Continuing Disclosure") to the Municipal Securities Rulemaking Board ("MSRB") and the state information depository ("SID"), if any, in accordance with the provisions of Section (b)(5)(i) of the Rule as follows:

(i) within 270 days after the end of the Authority's Fiscal Year, Annual Financial Information with respect to each Fiscal Year of the Authority, commencing with the Fiscal Year ending on or after September 30, 2009. "Annual Financial Information" means, collectively: (A) Audited Financial Statements for the Authority prepared in accordance with generally accepted accounting principles; (B) Audited Financial Statements of the Government prepared in accordance with generally accepted accounting principles, if available (or, in the event that such Audited Financial Statements of the Government are not available, in substitution therefore, unaudited financial statements of the Government"); and (c) an update of the tabular information presented in the Official Statement under the headings "MATCHING FUND REVENUES" and "THE RUM INDUSTRY" and an update of the information under the heading "VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY – Outstanding Indebtedness of the Authority";

(ii) the Authority shall provide, within forty-five (45) days of the end of each quarter of each Fiscal Year, quarterly summaries of the information provided by the Virgin Islands Bureau of Alcohol Control Board on rum shipments and excise taxes collected as reported by the Bureau of Alcohol, Tobacco and Firearms submitted to the United States Department of the Interior with respect to Matching Fund Revenues;

(iii) During construction of the Diageo Project, the Authority shall provide, or cause to be provided by Diageo USVI, pursuant to the terms of the Diageo Project Implementation Agreement, within forty-five (45) days of the end of each quarter of each Fiscal Year, quarterly updates on the construction progress of the Diageo Project against the plans for completion of construction by November 2010;

(iv) Upon completion of the construction of the Diageo Project until the commencement of rum exportation from the Virgin Islands to the U.S. mainland, the Authority promptly shall provide, or cause to be provided by Diageo USVI, pursuant to the terms of the Diageo Project Implementation Agreement: (i) confirmation that distillation of the rum at the

Distillery has commenced as planned by November 2010; (ii) information with regard to any changes in the date for commencement of exportation of rum from the Virgin Islands to the U.S. mainland; and (iii) confirmation when exportation from the Virgin Islands begins, specifying the number of proof gallons of bulk rum initially exported and whether such quantities are consistent with the production plans set forth in the Diageo Agreement; and

(v) After the Diageo Project becomes fully operational, the Authority promptly shall provide, or cause to be provided by Diageo USVI, pursuant to the terms of the Diageo Project Implementation Agreement, information with respect to any material interruption of production that could materially impact the supply of rum used to manufacture Captain Morgan branded products to be sold in the U.S. and any material deviation from the production plans set forth in the Diageo Agreement.

The descriptions contained in clause (a)(i)(C) above, constituting Annual Financial Information, are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Similarly, when the operating data described in clauses 2(a)(iii)-(v) can no longer be generated because the operations to which it related have been materially changed or discontinued, including in the event of termination of the Diageo Agreement, a statement to that effect shall be provided in lieu of such information.

(b) Any of the Continuing Disclosure may be included by specific reference to other documents previously provided to the MSRB and the SID, if any, or filed with the SEC; provided, however, that any final official statement incorporated by reference must be available from the MSRB.

(c) The Authority will provide in a timely manner to the MSRB and the SID, if any, notice specifying any failure of the Authority to provide the Continuing Disclosure by the date specified.

VIRGIN ISLANDS PUBLIC FINANCE
AUTHORITY

Attest:

By: _____
Name: John P. deJongh, Jr.
Title: Chairman

ACKNOWLEDGED AND ACCEPTED BY:

Government of the Virgin Islands

Diageo USVI, Inc., but solely with respect to the information to be provided in clauses 2(a)(iii)-(v) hereof

By: _____

John P. deJongh, Jr., Governor

By: _____

Date: July 9, 2009

APPENDIX J

FORM OF OPINION OF BOND COUNSEL TO THE AUTHORITY

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APPENDIX J

FORM OF OPINION OF BOND COUNSEL TO THE AUTHORITY

July 9, 2009

Virgin Islands Public Finance Authority
St. Thomas, Virgin Islands

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

Ladies and Gentlemen:

We have examined a Record of Proceedings relating to the issuance of \$250,000,000 Subordinated Revenue Bonds, (Virgin Islands Matching Fund Loan Note - Diageo Project) Series 2009A (the "Series 2009A Bonds") of the Virgin Islands Public Finance Authority (herein called the "Authority"), a body corporate and politic, constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands, organized and existing under and pursuant to the Revised Organic Act of 1954, as amended, (48 U.S. CA. Section 1574 et. seq.) (the "Revised Organic Act") and the Virgin Islands Public Finance Authority Act (Title 29, Chapter 15, of the Virgin Islands Code), as amended, 2008 V.I. Act No. 7012 enacted July 11, 2008 and 2009 V.I. Act No. 7062, enacted April 21, 2009 (collectively, the "Act"), and Resolution No. 08-010, dated October 31, 2008 (the "Bond Resolution").

The Series 2009A Bonds are issued under and pursuant to the Revised Organic Act, the Act, the Bond Resolution, a Subordinated Indenture of Trust dated as of June 1, 2009 (the "Subordinated Indenture of Trust"), as previously supplemented, and as further supplemented by a Second Supplemental Subordinated Indenture of Trust dated as of July 1, 2009 (the "Second Supplemental Subordinated Indenture" and, together with the Subordinated Indenture of Trust, the "Subordinated Indenture"), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as trustee (the "Trustee") by and between the Authority and the Trustee (collectively, the "Subordinated Indenture"). All terms not otherwise defined herein shall have the meanings set forth in the Subordinated Indenture.

The Series 2009A Bonds shall be equally and ratably secured by the Subordinated Indenture, which pledges and assigns to the Trustee the Diageo Trust Estate (as defined in the Subordinated Indenture). The Series 2009A Bonds shall be subject and subordinate in all respects to the payment of and security interest of the Senior Bonds (as defined in the Subordinated Indenture).

The proceeds of the Series 2009A Bonds are being loaned by the Authority to the Government of the United States Virgin Islands (the "Government"), in accordance with the terms of the Agreement between Diageo USVI Inc. ("Diageo") and the Government of the United States Virgin

Islands dated as of June 17, 2008, as supplemented by the Letter dated June 25, 2009 from Diageo to the Governor of the Virgin Islands and accepted by the Governor, and pursuant to a Loan Agreement, dated as of July 1, 2009, by and among the Authority, the Government and the Trustee (the “Series 2009A Loan Agreement”), against delivery by the Government of its \$250,000,000 principal amount 2009A Matching Fund Loan Note - Diageo Project (the “Series 2009A Loan Note”).

The Series 2009A Bonds shall be dated, shall mature, shall be subject to redemption prior to maturity and shall have such other terms as set forth in the Subordinated Indenture.

The proceeds of the Series 2009A Bonds will be used to (i) provide a grant to Diageo USVI Inc. to finance the costs of the acquisition, design, construction, development and equipping of a rum production and maturation warehouse facility to be located on the island of St. Croix (the “Diageo Project”), (ii) pay in full the principal and interest due on the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project), Series 2009A, issued to finance certain preliminary costs of the Diageo Project, (iii) pay capitalized interest on the Series 2009A Bonds, (iv) fund the Series 2009A Senior Lien Debt Service Reserve Subaccount in an amount to meet the Series 2009A Debt Service Reserve Requirement and (v) pay certain costs of issuing the Series 2009A Bonds.

Pursuant to the Subordinated Indenture, the Authority is authorized to issue Additional Bonds from time to time upon the terms and conditions therein set forth.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds in order that interest on the Series 2009A Bonds will be and remain excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the Series 2009A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2009A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and Diageo have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2009A Bonds from gross income under Section 103 of the Code. In rendering the opinion in paragraph 4 hereof, we have assumed that the Authority and Diageo will comply with the provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and the Revised Organic Act.

2. The Subordinated Indenture has been duly authorized, executed and delivered by the Authority and, assuming the due authorization, execution and delivery thereof by the Trustee, is valid and binding upon the Authority and enforceable in accordance with its terms. The Subordinated Indenture creates the valid pledge which it purports to create of the Diageo Trust Estate, moneys, securities and funds held or set aside under the Subordinated Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Subordinated Indenture.

3. The Series 2009A Bonds are a valid and binding special limited obligation of the Authority, enforceable in accordance with its terms and the terms of the Subordinated Indenture and entitled to the benefits of the Subordinated Indenture, the Revised Organic Act, and the Act, and the

Series 2009A Bonds have been duly and validly authorized and issued in accordance with law (including the Act and the Revised Organic Act) and the Subordinated Indenture.

4. Under existing statutes and court decisions, interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and interest on the Series 2009A Bonds is not treated as a preference item in calculating the alternative minimum taxable income imposed on individuals and corporations under the Code, and such interest, is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. Such interest is also exempt from any income tax imposed on individuals by the Government of the Virgin Islands or any political subdivision thereof or by any state, territory or possession or by any political subdivisions thereof or by the District of Columbia pursuant to the Revised Organic Act and the Virgin Islands Code.

This opinion is issued as of the date hereof, and we assume no obligation to (i) update, revise or supplement this opinion to reflect any actions hereafter taken or not taken, or any facts or circumstances, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever, (ii) notify you or any other person of the conditions stated in Paragraph four above have not been met, or (iii) review any legal matters incident to the authorization, issuance, validity and tax exemption of the Series 2009A Bonds, or the purposes to which the proceeds thereof are to be applied, after the date hereof.

It is understood that the rights of the holders of the Series 2009A Bonds under the Series 2009A Bonds and the Subordinated Indenture and the enforceability thereof under the same may be subject to the exercise of judicial discretion, the sovereign police powers of the Virgin Islands and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined the executed Series 2009A Bonds and, in our opinion, the form of said Series 2009A Bonds and its execution are regular and proper.

Very truly yours,

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