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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
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PREPA PLACES OVER $1 BILLION IN THE TAX EXEMPT MARKET GENERATING OVER $500 MILLION FOR CAPITAL IMPROVEMENTS

SAN JUAN – The Puerto Rico Electric Power Authority (PREPA) placed yesterday $993.45 million in the U.S. tax-exempt market, generating $509.5 million to finance its capital improvements program and savings of $27.34 million by refinancing nearly $484 million in existing debt, announced the president of the Government Development Bank (GDB), William Lockwood.

"Investors reacted with great enthusiasm to the first bond issue of this term, which was oversubscribed achieving very favorable yields before the expected rise in interest rates announced by the Federal Reserve Bank," said Lockwood. Having oversubscribed most of the terms allowed us to capture yields ranging between two and four basis points under originally planned, which resulted in significant savings for the Authority," he explained.

Specifically, the bond issue captured yields fluctuating between 2.86% for the shortest term (2007), 4.48% for the longest insured term (2035), and 4.68% for the longest uninsured term (2030), the president said, adding that the savings exceeded the 5% goal. "All of this made possible for us, together with PREPA's financial team, to achieve an all-in TIC of 4.71%, with the used of a considerable amount of insurance, Lockwood said.

In a rather unusual situation, five of the six bond insurance companies—CIFG, FGIC, FSA, MBIA, and XL Capital—took part in this transaction, covering everything but $37.4 million of the almost $1 billion issued", Lockwood said. The GDB officer also emphasized that the five companies offered lower premiums than the ones offered to the Authority in the past.

"All these elements also made possible for an initial portion of the issue of $76.4 million to be sold in the retail market the day prior to the issue," Lockwood said.

The issue was also favored by the current shortage of tax exempt securities in the U.S. market, given the triple tax exemption enjoyed by the bonds of the Commonwealth of Puerto Rico and its public corporations, in addition to the backing received by the rating agencies, the president explained.

"In evaluating PREPA's credit in connection with this bond issue, both Moody's and Standard & Poor', made favorable comments regarding the operational performance of the public corporation and reaffirmed, respectively, the A3 stable, and A- stable ratings for the Authority, in spite of the negative outlook they currently give to the Commonwealth's credit, " Lockwood said in reference to the two agencies that rate the credit of the central government of the Commonwealth of Puerto Rico. This underlying ratings were increased to Aaa and AAA, respectively, for most of the terms thanks to the insurance contracts, which allowed us to offer said terms at lower yields," Lockwood added.

Yesterday's transaction was the first bond issue since 2003 in which PREPA generates new money. "The new money, which exceeds $500 million, will finance PREPA's capital improvements program that runs from this fiscal year to 2009, for an approximate total investment of $2.1 billion," said the Authority's acting executive director, Héctor M. Alejandro-Narváez.

As explained by Alejandro-Narváez, said capital improvements plan, which was mentioned by Governor Aníbal Acevedo-Vilá recently in his budget address, includes $803.6 million for a new production plant, $420.2 million for the replacement and repair of electricity generating units to extend their useful life and increase their efficiency, capacity and dependability, $505.2 million for transmission installations, and $468.1 million for distribution installations.

The issue, which should close in early April, together with a forward series issued in August 2004, was managed by JP Morgan with R-G Investments Corporation as lead managers, and had Merrill Lynch with BBVA Securities of Puerto Rico, Inc. and Morgan Stanley with Popular Securities as senior co-managers.