PREPA Public Disclosure
September 2, 2015

Introduction

As previously announced, on August 14, 2014, the Puerto Rico Electric Power Authority ("**PREPA**") entered into forbearance agreements (the "**Forbearance Agreements**") with various creditors. In light of ongoing discussions regarding a potential recovery plan, the Forbearance Agreements were extended by the parties thereto on several occasions.

To facilitate these ongoing discussions, PREPA executed confidentiality agreements with certain Forbearing Creditors (the "**Confidentiality Agreements**"), including an Ad Hoc Group of Bondholders. Under these Confidentiality Agreements, PREPA agreed to publicly disclose certain confidential information provided to the parties to such agreements. The information included in this notice and its annexes is being furnished to comply with PREPA's obligations under the Confidentiality Agreements.

On August 5, 2015, PREPA presented a proposed recovery plan (the "**August 2015 Recovery Plan Proposal**") to the parties to the Forbearance Agreements. The August 2015 Recovery Plan Proposal was not accepted by the creditor parties to the Forbearance Agreements. A summary of the material terms of the August 2015 Recovery Plan Proposal are attached as Annex A hereto.

Following further extensive discussions, on September 1, 2015, PREPA and the Ad Hoc Group of Bondholders reached an agreement (the "**Ad Hoc Group Agreement**") on certain economic terms of a recovery plan, subject to certain terms and conditions. The terms of the Ad Hoc Group Agreement are attached as Annex B hereto.

In addition, on September 1, 2015, certain creditors of PREPA, including the Ad Hoc Group of Bondholders and other creditor parties to the Forbearance Agreements (the "**Forbearing Creditors**"), agreed to extend the Forbearance Agreements through September 18, 2015 (the "**Forbearance Agreement Extensions**"), subject to earlier termination in accordance with their terms. Although National Public Finance Guarantee Corporation was a party to the Forbearance Agreements, it is not a party to the Forbearance Agreement Extensions.

PREPA is continuing discussions and negotiations with the Forbearing Creditors and other stakeholders regarding the terms of a potential recovery plan that incorporates the terms that have been agreed upon with the Ad Hoc Group of Bondholders.

Forward-Looking Statements

The information contained in this notice encompasses certain "forward-looking" statements and information. These forward-looking statements may relate to the fiscal and economic condition, financial performance, plans, or objectives of PREPA. All statements contained herein that are not clearly historical facts are forward-looking, and the words "anticipates," "believes," "continues," "expects," "estimates," "intends," "aims," "projects," and similar expressions, and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions, are generally intended to identify forward-looking statements. The information contained herein is subjective in many respects and thus subject to interpretation.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, opinions, expectations and assumptions by PREPA that are difficult to predict and inherently uncertain and many of them are beyond the control of PREPA. The economic and financial condition of PREPA is affected by various financial, social, economic and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by PREPA, but also by entities such as the Commonwealth of Puerto Rico (the **"Commonwealth"**), the government of the United States of America, and other third parties. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying PREPA's projections.

The projections set forth in this disclosure were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the officers of PREPA responsible for the preparation of such information, were prepared on a reasonable basis based on information available to PREPA at the time of preparation. This information may be incomplete, however, and any information that subsequently becomes available may have a material impact on the projections. It is not possible for PREPA to forecast all the risks which may emerge from time to time nor is it feasible for PREPA to assess the operational or financial impact that they may have on its business. Any combination of risks and other unforeseen challenges may cause results to differ materially from those contained in this disclosure. As such, readers are cautioned not to place undue reliance on any forward-looking financial information contained herein. Actual future results may differ materially from the forward-looking information presented herein.

PREPA does not undertake to update or revise this disclosure, except to the extent required by law.

Neither PREPA's independent auditors, nor any other independent auditors, including those of the Commonwealth, have compiled, examined, audited or performed any procedures with respect to the financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with such financial information. Neither PREPA's independent auditors, nor any other independent auditors, including those of the Commonwealth, have been consulted in connection with the preparation of this disclosure, and the independent auditors assume no responsibility for its content.

ANNEX A

PREPA Counterproposal [REDACTED]

August 5, 2015

Overview of PREPA Counterproposal

Following are the key terms of the PREPA Counterproposal

	Unwrapped Bondholders	Monolines[a]	Fuel Line/GDB LOC Creditors
Amount of Exposure	▪ $5.8 billion of principal ▪ $2.0 billion of debt service over next five years	▪ $2.5 billion of principal ▪ $1.3 billion of debt service over next five years	▪ $731 million of principal ▪ $878 million of debt service over next five years
Key Benefit	REDACTED	✓ Provides path to full repayment over time and protection from payment under existing policies	✓ Provides path to full repayment over time
Overview of Terms	REDACTED	▪ The monolines shall have the option to receive: — On each debt service payment date for the next five years (including the December 2015 maturity), monolines will purchase new revenue bonds in an amount equal to refund each debt service payment to wrapped bonds • If PREPA obtains financing of major capital improvement plan expenditures previously budgeted to be paid in cash, PREPA would repurchase an agreed-upon amount of refunding bonds upon receipt of such financing — Same treatment as unwrapped bondholders	▪ The Fuel Lines/GDB LOC have the option to receive: — Seven year term out with escalating amortization (i.e., 10% per annum in FY18-FY20, 30% in FY21, and 40% in FY22); or — Amendment providing for a rollover facility with a 35% principal reduction; current interest and principal payments and extension of additional working capital credit to PREPA; or — Same treatment as unwrapped bondholders
Required Participation	REDACTED	▪ 100%	▪ 100%

(a) Monolines and fuel line lenders would also be provided the option to participate in the Stranded Cost Bonds and Capital Appreciation Bonds on the same terms that are offered to the Unwrapped Bondholders.
(b) Capital Appreciation Bonds are assumed to accrete to 25% of par over time.

Other Key Proposal Terms

Wrapped Bonds	■ On January 1 and July 1 of each year beginning on January 1, 2016 and through and including July 1, 2020, the monolines will have the option to either (i) purchase directly Refunding Bonds (as described below) in an amount sufficient to refund the debt service (principal and interest) of the Wrapped Bonds due on each date or (ii) purchase Stranded Cost Bonds and the Capital Appreciation Bonds at the same exchange rate for the Unwrapped Bonds — The monolines' purchase obligation will be conditioned solely on (i) payment in full by PREPA on each January and July payment date and (ii) other closing conditions similar to those applicable to the 2015A bond purchase. Failure to make such purchase would constitute a breach under the forward purchase agreement and as a result of such breach PREPA will be entitled to set off any amounts due to the monolines ■ Monolines shall relend the January 2016 maturity of the Series 2015A on the same terms of the rest of their forward purchase arrangements ■ If PREPA obtains financing of major capital improvement plan expenditures previously budgeted to be paid in cash, PREPA would repurchase an agreed-upon amount of refunding bonds upon receipt of such financing ■ 100% participation required from the monolines ■ Debt service on wrapped bonds beginning on January 1, 2021 and thereafter shall be serviced by PREPA's cash flows
Refunding Bonds	■ The Refunding Bonds shall have the following terms: — Cash interest payable at current weighted average interest rate of the refunded Wrapped Bonds (approximately 5.2%) — 20-year final maturity; principal amortization begins in 2030 — Callable at par — PREPA shall be permitted to buy debt at market prices with funds from the Rate Stabilization Fund (described on the next page)

Other Key Proposal Terms (cont'd)

Fuel Lines	▪ The Fuel Lines have the option to receive: — Seven year term out with escalating amortization (i.e., **10% per annum in FY18-FY20, 30% in FY21, and 40% in FY22)** — Amendment providing for a rollover facility with a 35% principal reduction; current interest and principal payments and extension of additional working capital credit to PREPA; or — Stranded Cost Bonds and the Capital Appreciation Bonds at the same exchange rate for the Unwrapped Bonds
Other	▪ Proposal subject to an agreement on the non-economic terms (e.g., governance, RFP for third party operators and investors, etc.) ▪ PREPA will continue to explore alternative financing options, including those proposed by the Ad Hoc group ▪ The GDB line of credit is assumed to receive the same treatment as the Fuel Lines ▪ Existing swaps assumed to remain in place

Disclaimer

The information contained in this file (the "Information") has been provided and prepared by advisors to PREPA and the Government Development Bank for Puerto Rico ("GDB"). The Information is in draft form subject to review and authorization by PREPA governing board, as well as ongoing discussions and revision by PREPA and its advisors. No representations or warranties, express or implied, is made by PREPA or any of its advisors, or advisors to the GDB as to the accuracy or completeness of the Information. PREPA, GDB and their respective advisors shall have no responsibility or liability for the accuracy or completeness of the Information or the consequences of any party's reliance upon the Information. The Information does not constitute an offer or solicitation to sell or purchase securities. None of PREPA, GDB, or their respective advisors shall have any liability, whether direct or indirect, in contract, tort or otherwise, to any person in connection with the Information.

The Information contained herein encompasses certain "forward-looking" statements and information. These forward-looking statements and information are not guarantees of future performance and involve certain risks, uncertainties, estimates, opinions, expectations and assumptions by PREPA, GDB and their respective advisors and many of them are beyond the control of said parties. Factors that may impact PREPA's future debt service obligations, such as increases in prevailing interest rates, are entirely beyond the control of PREPA, GDB and their respective advisors. The parties reviewing the Information are cautioned not to place any reliance on the forward-looking information contained herein.

The Information is being provided pursuant to confidentiality agreements between you and PREPA, is confidential in nature, may include information that is not publicly available, and may not be shared with or disclosed to any other person.

ANNEX B

Puerto Rico Electric Power Authority
Ad Hoc Group Exchange Term Sheet
September 1, 2015

Ad Hoc Group Exchange	Ad Hoc Group shall commit to exchange all of their unwrapped bonds for either of the options outlined below. Ad Hoc Group must hold minimum of 35% of the outstanding bonds. Ad Hoc Group will remain bound by same restrictions in the Forbearance Agreement and Forbearance and Amendment period shall be extended through consummation of the deal, subject to an early drop dead date to be discussed.	
	Option A	**Option B**
Security	Current interest securitization paper to be issued by a new bankruptcy-remote PRIFA subsidiary or new bankruptcy-remote special purpose vehicle, subject to approval by the Ad Hoc Group. Securitization paper to be supported by non-bypassable adjustable charge with semi-annual true-up	Convertible Capital Appreciation securitization paper to be issued by a new bankruptcy-remote PRIFA subsidiary or new bankruptcy-remote special purpose vehicle, subject to approval by the Ad Hoc Group. Securitization paper to be supported by non-bypassable adjustable charge with semi-annual true-up. Converts from a capital appreciation bond to current interest five years after issuance
Exchange Ratio	85.0%	85.0%
Interest Rate	• Weighted average interest rate across maturities (based on yield curve) shall be fixed at the specified rates (BBB- and above) subject to the final investment grade rating, as follows: AAA: 4.00% AA+/AA/AA-: 4.25% A+/A/A-: 4.50% BBB+/BBB/BBB-: 4.75%	• Weighted average interest / accretion rate across maturities (based on yield curve) shall be fixed at the specified rates (BBB- and above) subject to the final investment grade rating, as follows: AAA: 4.50% AA+/AA/AA-: 4.75% A+/A/A-: 5.25% BBB+/BBB/BBB-: 5.50%
Call	Non-call for ten years, callable at par thereafter	Non-call for ten years after conversion, callable at par thereafter
Ranking	• Pari-passu with securitization paper issued to fund the cash tender • Revenue collections to be distributed pro rata to the securitization vehicle and PREPA • Future additional indebtedness allowed subject to (i) confirmation of outstanding ratings after giving effect to new issuance or (ii) being secured by a new or additional surcharge, subject to rating agency feedback	
Amortization and Maturity	• Securitization bonds shall receive interest (in cash or capital appreciation) only for the first five years following issuance	

	• Level debt service thereafter • Scheduled maturity in 2043; final legal maturity at least two years after scheduled maturity, or such length of time as is required to obtain investment grade rating
Rating	Securitization shall receive investment grade rating from at least one of the three major rating agencies but PREPA may approach multiple agencies as part of the process
Debt Service Reserve	Securitization shall have a debt service reserve of up to 10% as required to receive an investment grade rating. Size of the reserve shall be determined by PREPA in consultation with the ratings agencies and the Ad Hoc Group, and shall be sized such that, together with net interest cost on the securitization bonds, PREPA minimizes its funding costs. Reserve to be funded from bond proceeds, a surety policy, and/or deposits over time.
Backstop Facility	Ad Hoc Group shall negotiate with PREPA in good faith to provide a backstop for the financing of a cash tender for the Non-Forbearing Unwrapped Holders (as described below). Terms of Backstop Facility and the Backstop Fee TBD.
Backstop Fee	TBD
Non-Forbearing Unwrapped Bondholders:	• Non-Forbearing Unwrapped Holders shall have the option to participate in the same exchange as the Ad Hoc Group, or to tender their bonds at a price to be determined in consultation with the backstop parties and investment bankers • Requires participation from the Non-Forbearing Unwrapped Bondholders such that no more than $700 million of the legacy unwrapped revenue bonds are outstanding, subject to input from investment bankers which rate may be altered at PREPA's discretion
Treatment of Monolines	TBD
Treatment of Fuel Lines	TBD
Conditions to Consummation	• Receipt of investment grade rating from at least one of the three major rating agencies (but PREPA may seek rating from more than one rating agency) • Obtaining legislative authority for issuance of the securitization and other legislative changes related to restructuring of PREPA • Amendment of governance provisions to make PREPA a more independent, non-political utility • Successful exchange offer (100% of ad hoc group shall exchange, and no more than $700 million of the legacy unwrapped revenue bonds are outstanding) • The amount of current interest bond and convertible capital appreciation bond issuance shall be determined based on the elections of each holder, subject to any caps necessary to ensure compliance with the ratings condition • Any restructuring support agreement entered into by the parties will contain customary plan support and termination rights, including with respect to insolvency related proceedings