



Puerto Rico:
“Ahead of the Curve”
with the successful implementation of its
Fiscal and Economic Reconstruction Plan

Investor Webcast

July 22, 2010



Participants

Introduction by

Luis G. Fortuño

Governor of Puerto Rico

Government Development Bank

Carlos M. García

Chairman & President

Fernando L. Batlle

Executive Vice President - Financing & Treasury

Treasury Department

Juan C. Puig

Secretary

Puerto Rico is ahead of the curve
implementing its Fiscal and
Economic Reconstruction Plan with
concrete results



Agenda

1

FY 2010 Fiscal Achievements

2

Approved Budget FY 2010-2011

3

Economic Reconstruction

4

Public Private Partnerships Update

5

Other Matters

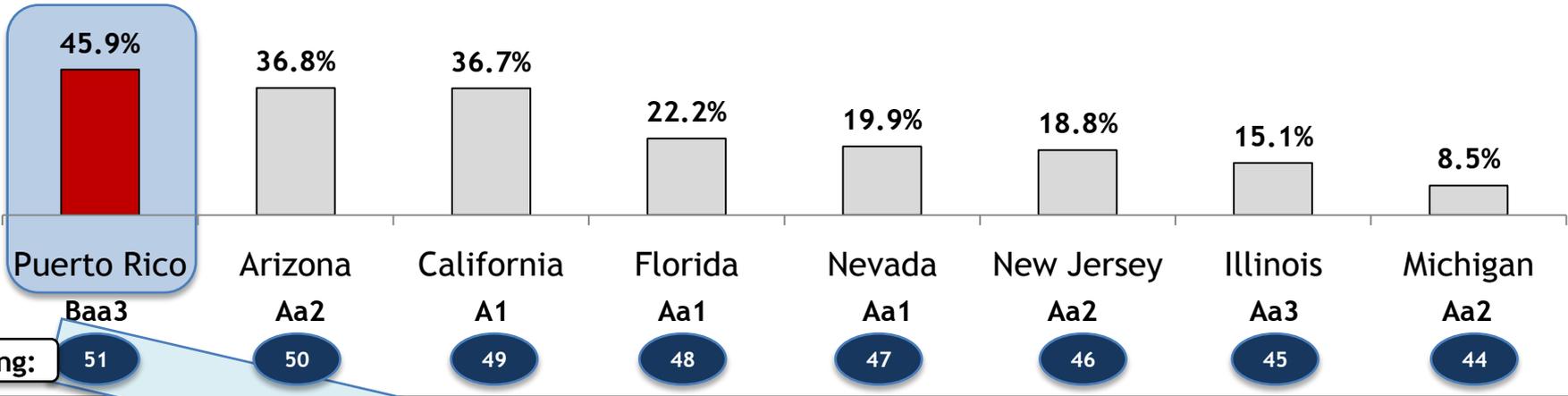
6

Delivering Results

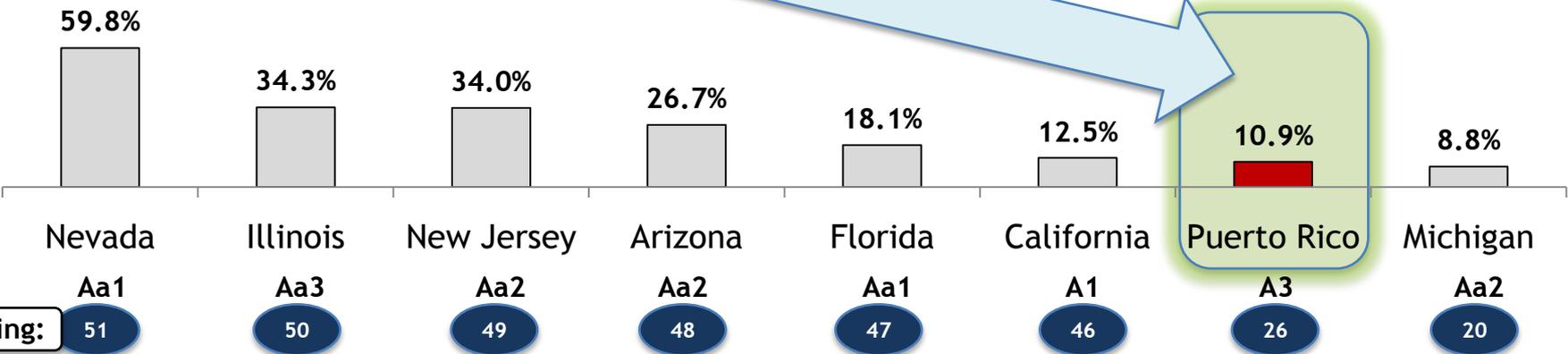


Our fiscal progress is unparalleled...

Deficit as a % of Revenues for FY2008-2009



Budgeted deficit as a % of Revenues for FY2010-2011





The States are now following our lead implementing drastic fiscal measures...

Measure	States	
Layoffs	25	
Reduction in Working Hours	22	
Reduction in Operational Expenses	28	
Increase Taxes	30	

Measures taken by Puerto Rico since early 2009

-
-
-



...many are now adopting fiscal measures to address budget their increasing deficits

Illinois

Proposed 33% increase in income tax and layoff of 2,600 employees

Florida

18% increase in withholding tax

New Jersey

\$820 million cut in state education aid

California

238,000 state workers forced to take off 2 unpaid days per month

New York

8,900 state workers laid off, the state's first large scale layoff plan in 15 years

Louisiana

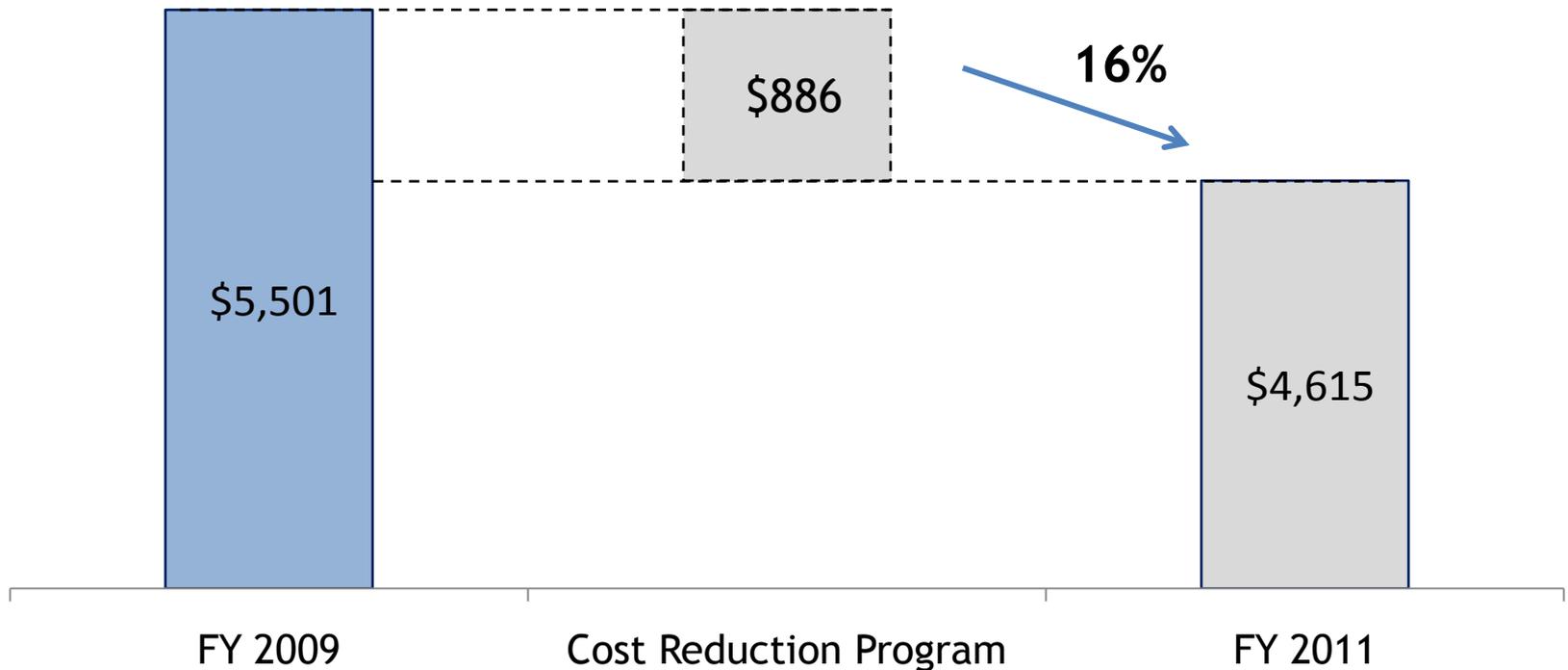
Plans for 2,976 state worker layoffs, 1,100 of those in the health department



On the other hand, we are a step ahead: We have reduced government payroll by \$886 million or 16% of total payroll...

Central Government Payroll

(in \$ millions)





Net revenues for FY 2010 were \$18 MM above previous year and \$21 MM above estimates...

Revenue Categories (\$ millions)	Actual for Fiscal Year		\$ Change	Estimate 2010	Actual vs. Estimate
	2009	2010			
Individuals	\$2,614	\$2,571	(\$43)	\$2,614	(\$43)
Corporations	\$1,364	\$1,690	\$326	\$1,556	\$134
Non-Resident Withholdings	\$1,081	\$830	(\$251)	\$878	(\$48)
Property Tax	\$0	\$228	\$228	\$230	(\$2)
Sales and Use Tax	\$808	\$539	(\$269)	\$545	(\$6)
Motor Vehicles	\$314	\$345	\$30	\$334	\$11
Alcoholic Beverages	\$277	\$285	\$7	\$279	\$6
Off-Shore Shipments of Rum	\$396	\$352	(\$43)	\$356	(\$4)
Cigarettes	\$129	\$182	\$53	\$177	\$5
Other	\$689	\$669	(\$20)	\$701	(\$32)
Total	\$7,673	\$7,691	\$18	\$7,670	\$21

SUT collections differential at the General Fund between last and current fiscal year is due to the additional 1.75% assignment of the SUT to COFINA



On a comparable basis, net revenues for FY 2010 were 2.2% or \$159 million above previous year

(\$ millions)	Actual for Fiscal Year		\$ Change	Estimate 2010	Actual vs. Estimate
	2009	2010			
Total Revenues	\$7,673	\$7,691	\$18	\$7,670	\$21
Adjustments for comparison purposes:					
Property Tax*	\$0	\$228	(\$228)		
Sales and Use Tax**	\$369	\$0	\$369		
Total (including adjustments)	\$7,304	\$7,463	\$159		

During FY 2009:

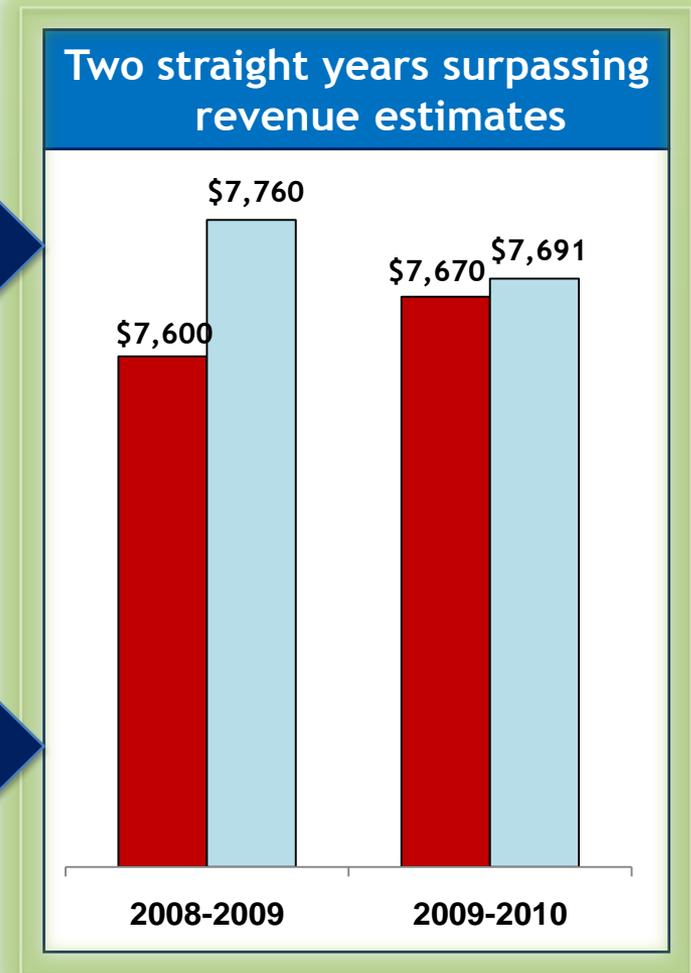
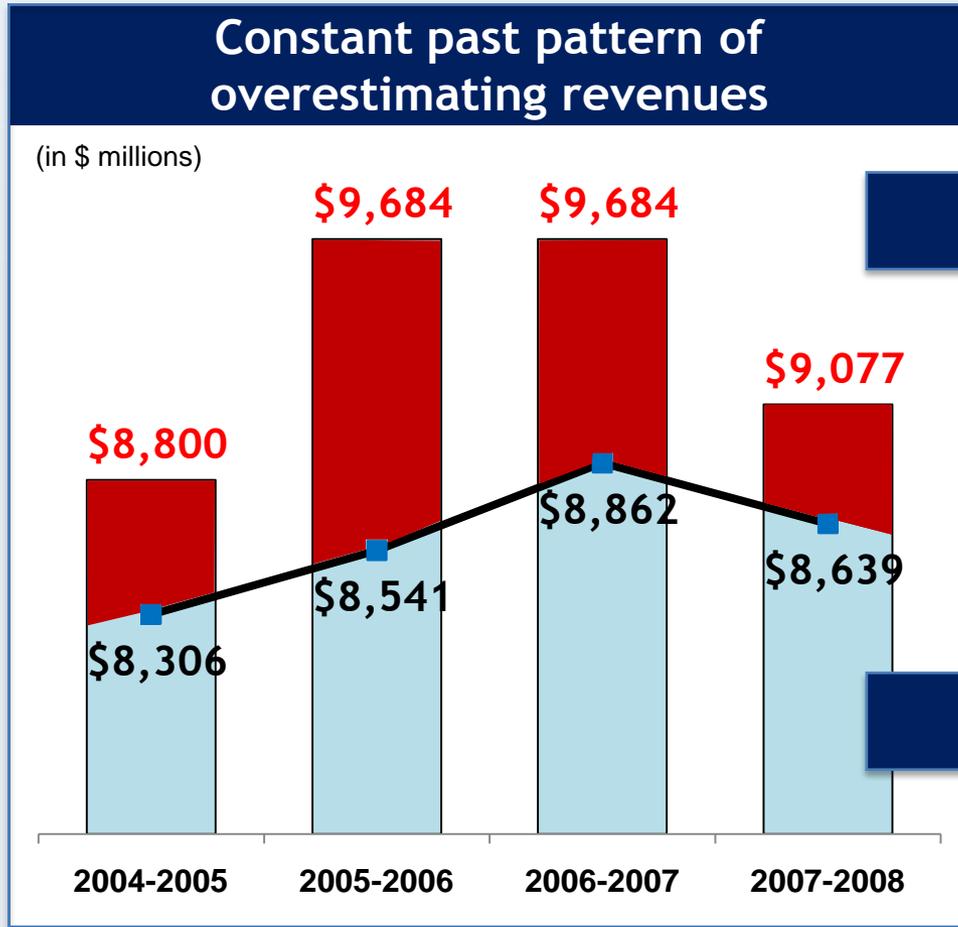
- No special property tax
- General Fund received larger allocation of sales and use tax that is currently used to pay additional COFINA bonds

*Act 7-Temporary increase in property tax.

**Act 1-1.75% increase in SUT allocation to COFINA. Adjustments for 2010 SUT collections include \$3 MM that was allocated to General Fund during month of December after entire allocation to COFINA was fulfilled. Numbers may not add up due to rounding



Practice of overestimating revenues to meet budget gaps is OVER...



— Budgeted Revenues — Actual Revenues



SUT collections since January 2010 are above same period collections from previous year

(in \$ thousands)

	Prior Methodology ¹			Revised ²
	2006-2007	2007-2008	2008-2009	2009-2010
July	-	96,100	95,592	94,382
August	-	90,181	91,353	88,000
September	-	86,163	77,788	84,100
October	-	93,751	86,191	83,775
November	50,200	96,170	91,996	85,120
December	110,000	121,251	119,836	95,075
January	95,000	89,798	85,763	118,476
February	86,200	86,486	84,608	88,942
March	96,400	89,355	88,065	82,538
April	85,700	93,487	88,788	93,415
May	94,400	103,331	93,302	85,469
June	95,460	97,526	94,382	92,500
Total	713,360	1,143,599	1,097,664	1,091,792

Source: Treasury Department, Total Sales and Use Tax receipts (5.5%).

(1) Treasury Secretary announced on May 4, 2010 that the Treasury Department has decided to begin reporting sales and use tax on a cash basis in order to be able to issue monthly collection reports on a timelier basis

(2) This change in reporting methodology does not affect in any way the amount of taxes pledged to COFINA and will facilitate monthly reporting of Sales and Use tax and overall revenues



Responsible cash flow management allowed us to meet our projections every quarter during FY 2010

Cash Flow Summary for Fiscal Year ended June 30, 2010:

- Ending cash balance of \$87 MM was 5% above the \$83 MM projected in the previously published quarterly cash flow projection of 3/31/2010.
- Collections and receipts for the fiscal year ended on 06/30/2010 were \$13,003 MM, a 1% increase when compared to the \$12,883 MM projection as of 3/31/2010, mostly resulting from:
 - Aggressive tax compliance initiatives by the Treasury Department and an improvement in Sales and Use Tax collections
- Expenses including debt service were \$173 MM or 1% more than projected as of 3/31/2010 mainly as a result of:
 - Additional assignment to government health insurance program through the Stabilization Fund



Ending cash balance of \$87 MM was 5% above previously published estimates

(in \$ millions)	ACTUAL											
	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Beginning Balance	39	144	81	140	136	126	204	73	104	58	114	71
Collection and Receipts	1,003	821	948	953	825	1,426	908	1,082	1,043	1,533	1,068	1,394
Expenses Incl. Debt Service	1,375	1,475	1,192	1,168	1,432	1,369	1,118	1,208	1,284	1,241	1,141	1,324
Total Financing Activity	477	411	60	(17)	9	(39)	(6)	(10)	(7)	(209)	(4)	(629)
Total Stabilization Funds	-	180	244	228	588	61	85	247	222	144	174	165
Ending Cash Balance	144	81	140	136	126	204	73	184	78	285	211	(323)
Restricted Cash for the Payment of TRANS								(80)	(20)	(170)	(140)	410
Cash available after Reconstruction Plan Initiatives and Restricted Cash	144	81	140	136	126	204	73	104	58	114	71	87

	for FY ended June 30, 2010			
	Actual	Projected as of 3/31/10	\$ Change	% Change
Beginning Balance	39	39	-	-
Collection and Receipts	13,003	12,883	120	1%
Expenses Incl. Debt Service	15,327	15,178	173	1%
Financing Activity	35	25	10	39%
Stabilization Funds	2,337	2,290	47	2%
Ending Cash Balance	87	83	4	5%

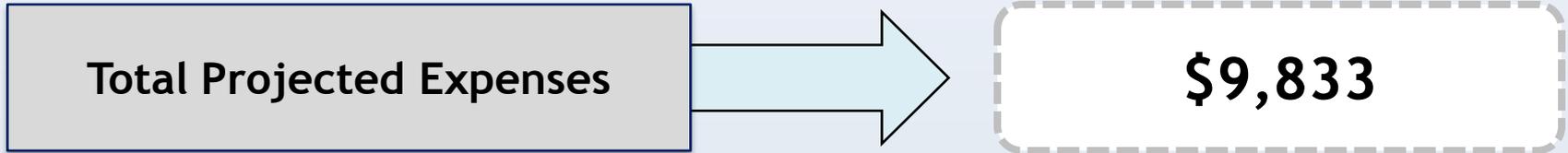
*These numbers are preliminary and subject to change upon FY2010 audit. Some numbers may differ due to rounding.
Source: Department of the Treasury and Government Development Bank for Puerto Rico



Preliminary closing of General Fund and Stabilization Fund FY 2010

for FY ended 2010

(in \$ millions)





Independent analysts have recognized the RESULTS of the Reconstruction Plan

“As a whole, we are beginning to feel better about the economy of Puerto Rico. Looking at the GNP estimates from the Puerto Rico Planning Board, the economy appears to be stabilizing.”

Bain Slack
Keefe, Bruyette & Woods
June 2010



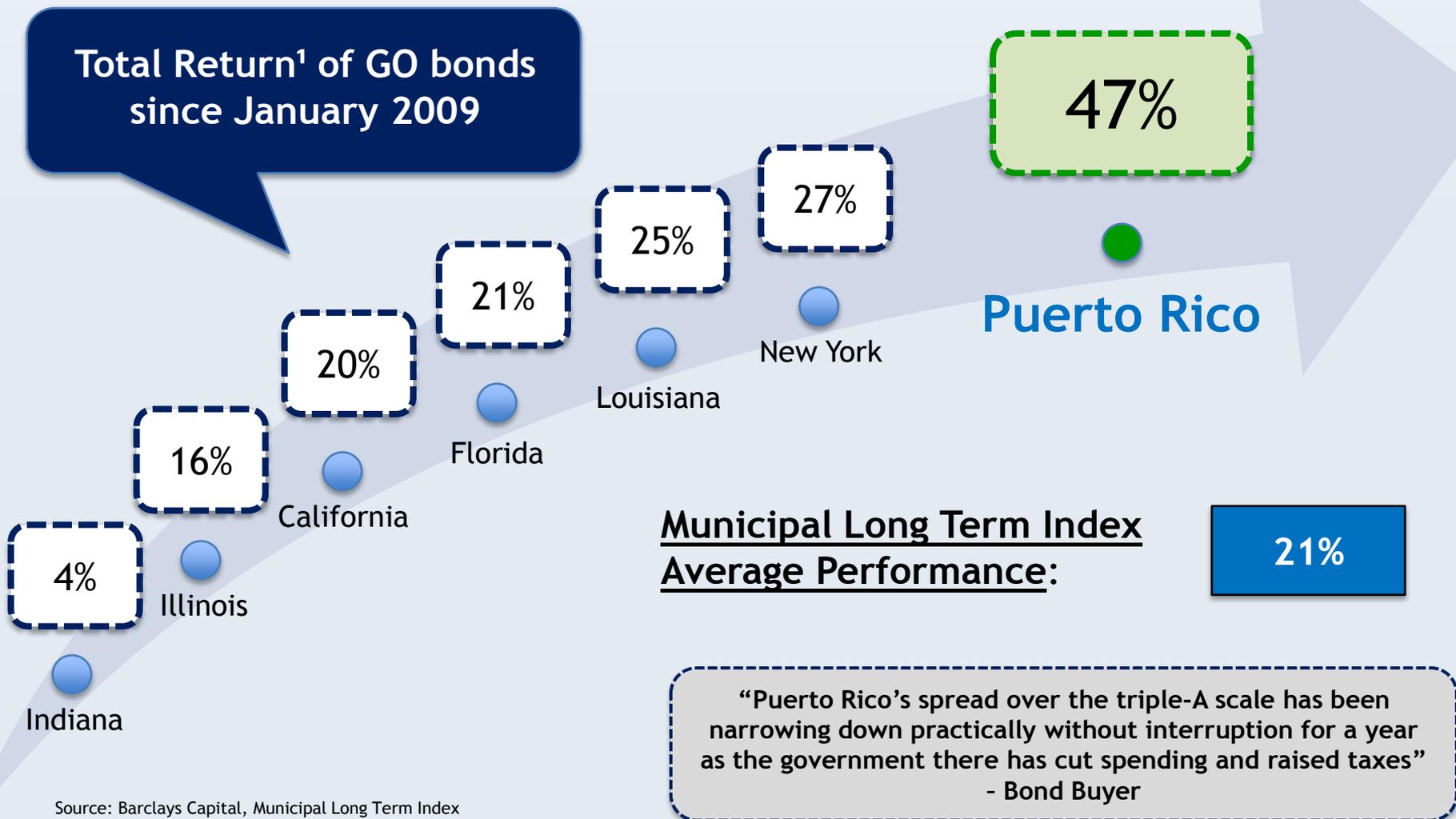
“Although implementation of the fiscal and economic stabilization plan is in progress, thus far key milestones have been met in accordance with the timeline established...the administration and legislature appear to be addressing the situation pragmatically”

Kristin Stephens
UBS-Wealth Management Research
June 2010





Furthermore, the capital markets continue to recognize the results of Puerto Rico's Reconstruction Plan



Total Return¹ of GO bonds since January 2009

Puerto Rico

Municipal Long Term Index
Average Performance:

21%

“Puerto Rico’s spread over the triple-A scale has been narrowing down practically without interruption for a year as the government there has cut spending and raised taxes”
- Bond Buyer

Source: Barclays Capital, Municipal Long Term Index
(1) Total Return calculated from January 5, 2009 to July 20, 2010



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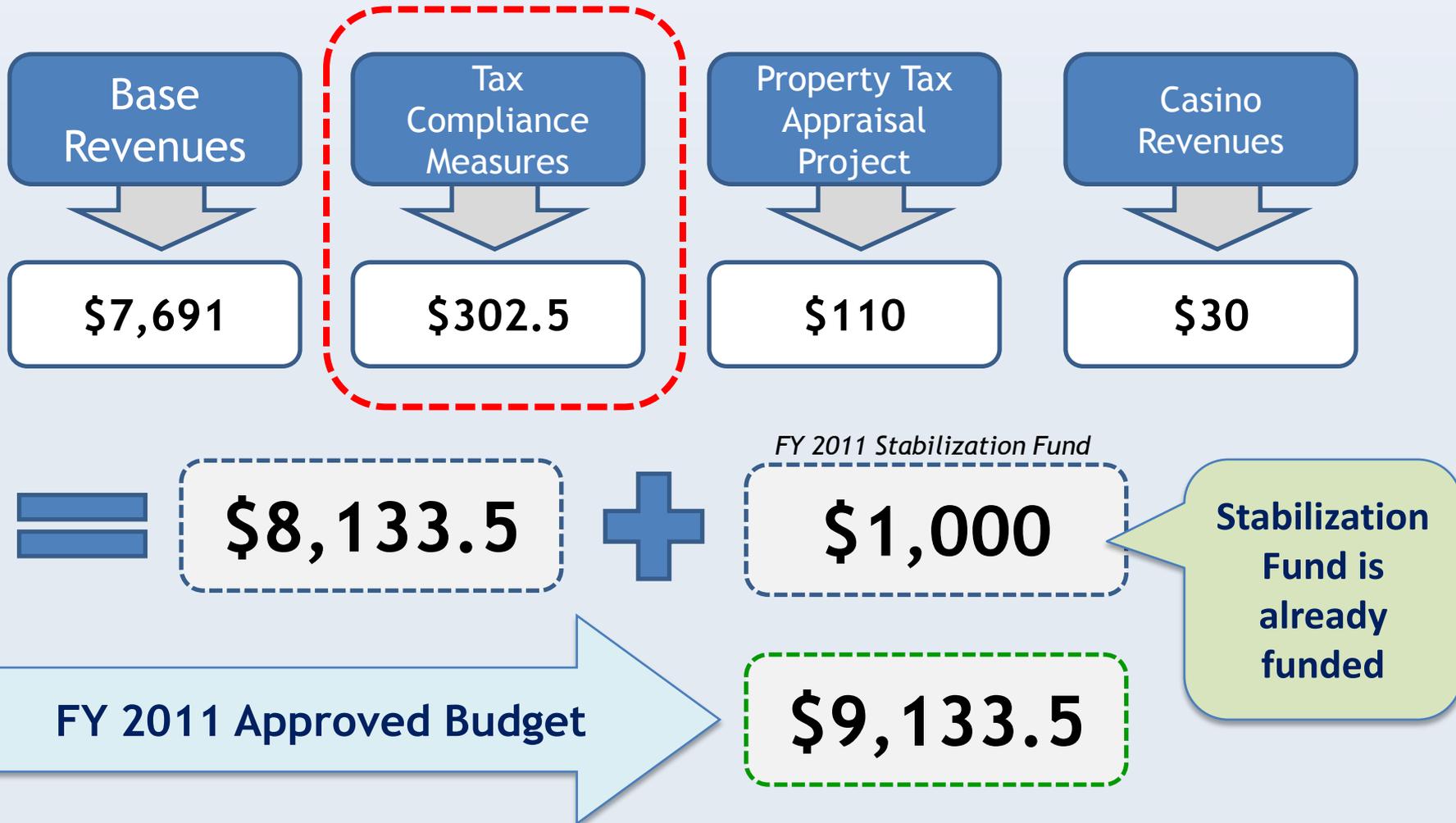
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Delivering Results



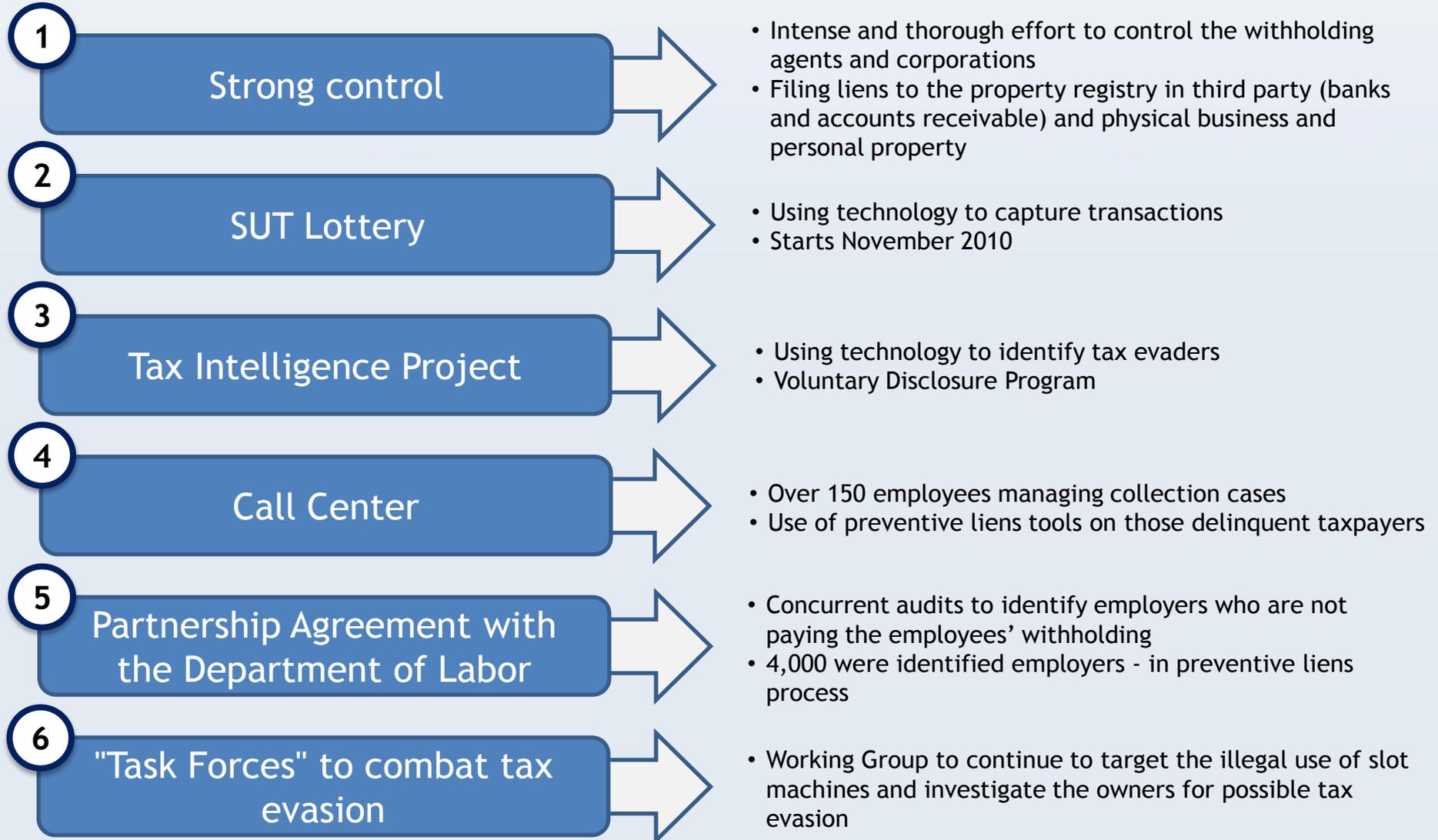
\$8,133.5 million in revenues are derived from actual base revenues with additional tax compliance measures...

(in \$ millions)





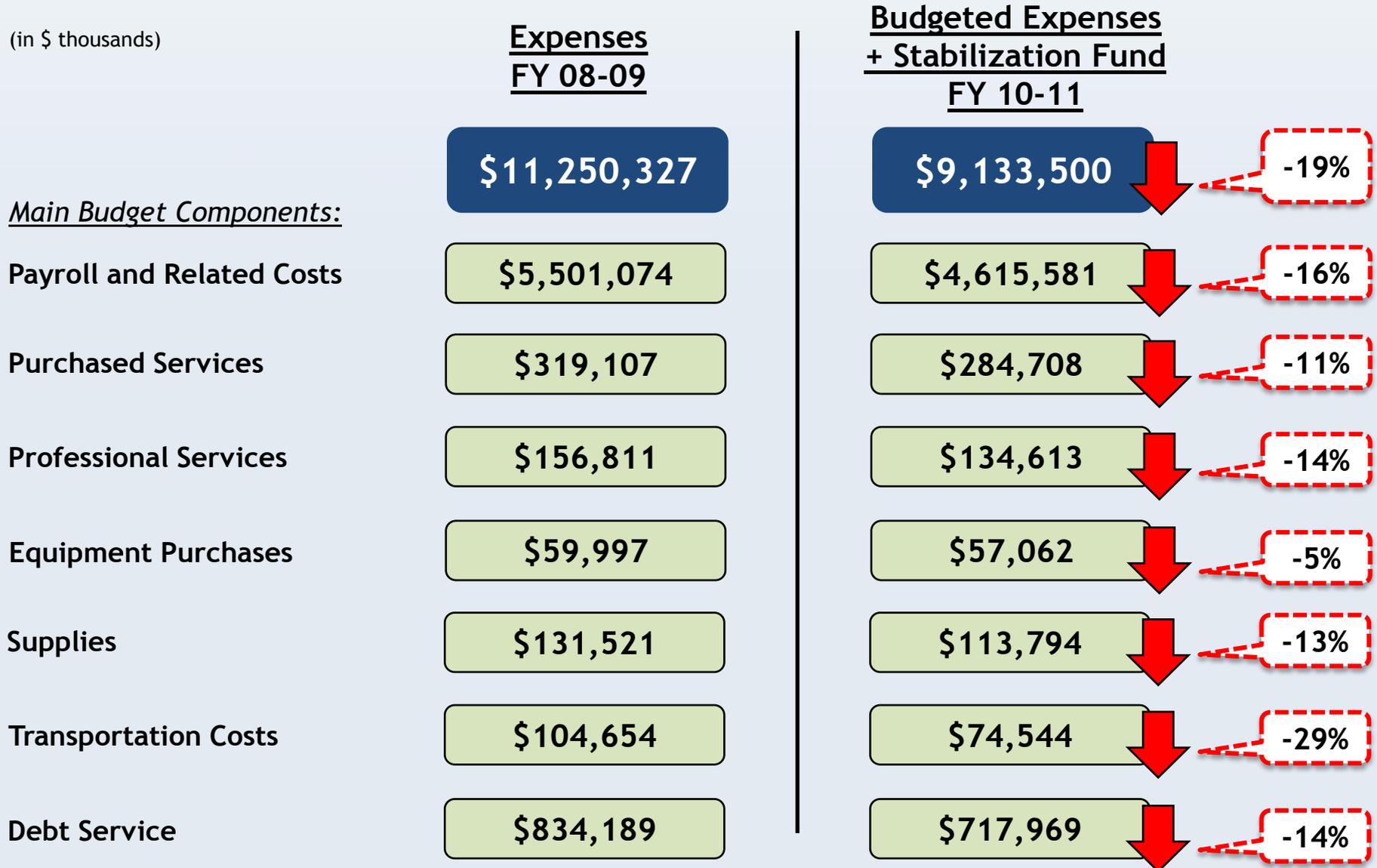
To achieve further tax compliance, additional efforts are under implementation...





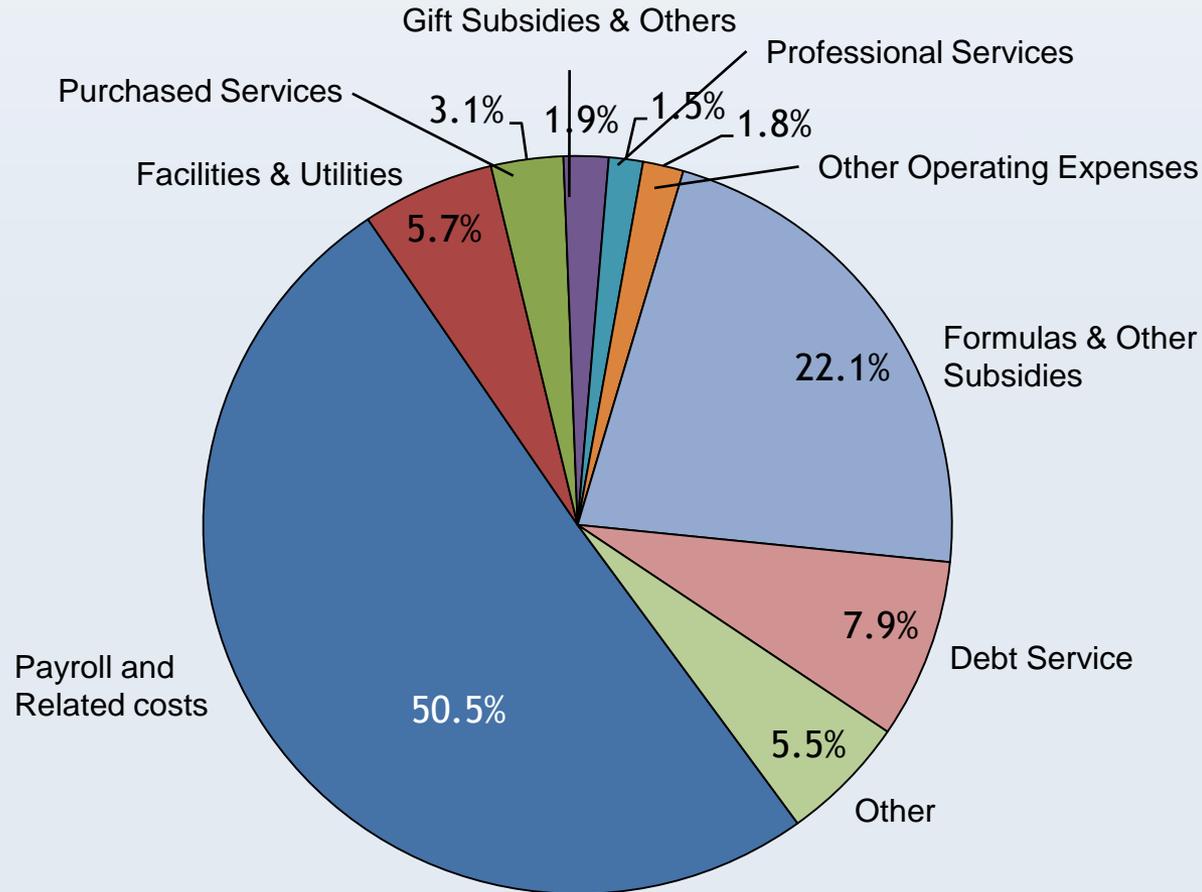
Government expenses are down 19% since FY 2009 compared to approved FY 2011 budget

(in \$ thousands)





Distribution of General Fund Expenses by Area Budget FY 2010-11



FY 2011 Budget
+ Stabilization Fund:

\$9,133.5 MM



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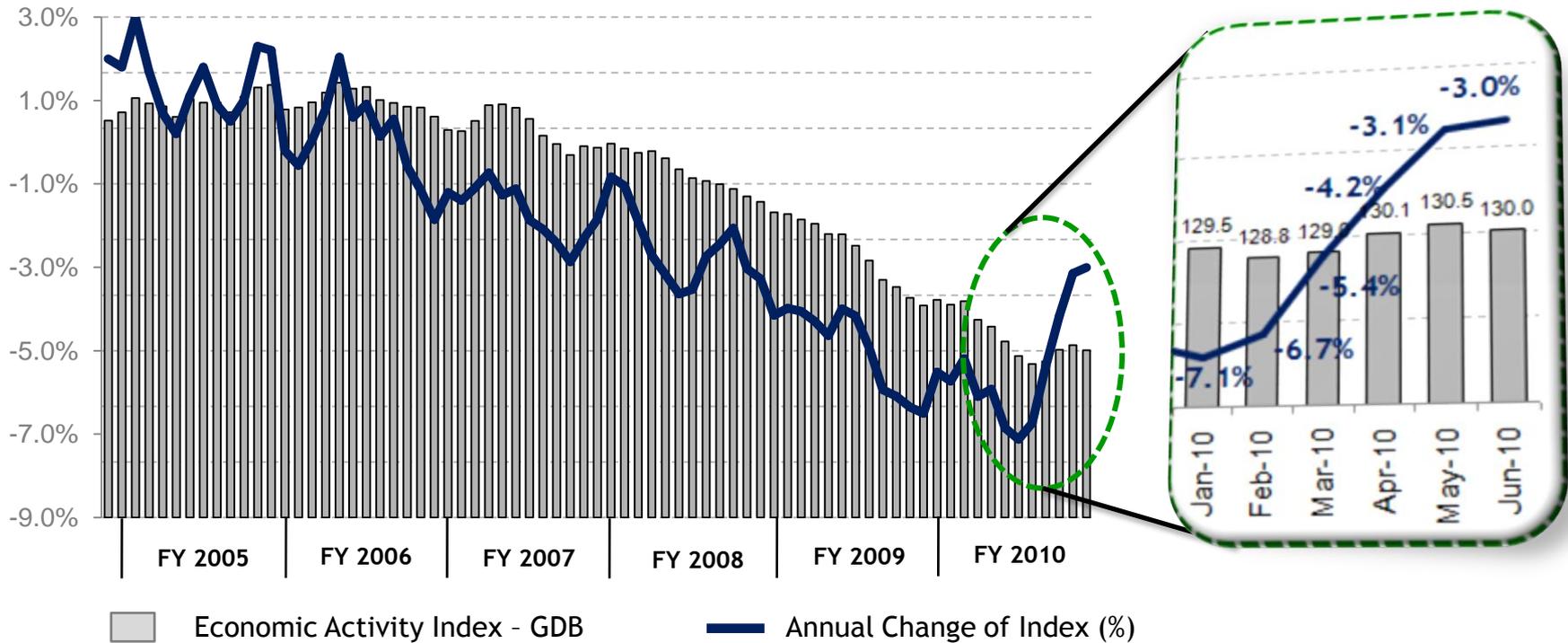
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Delivering Results



EAI reflects five consecutive months of recovery, a clear signal of improving economic activity

GDB Economic Activity Index

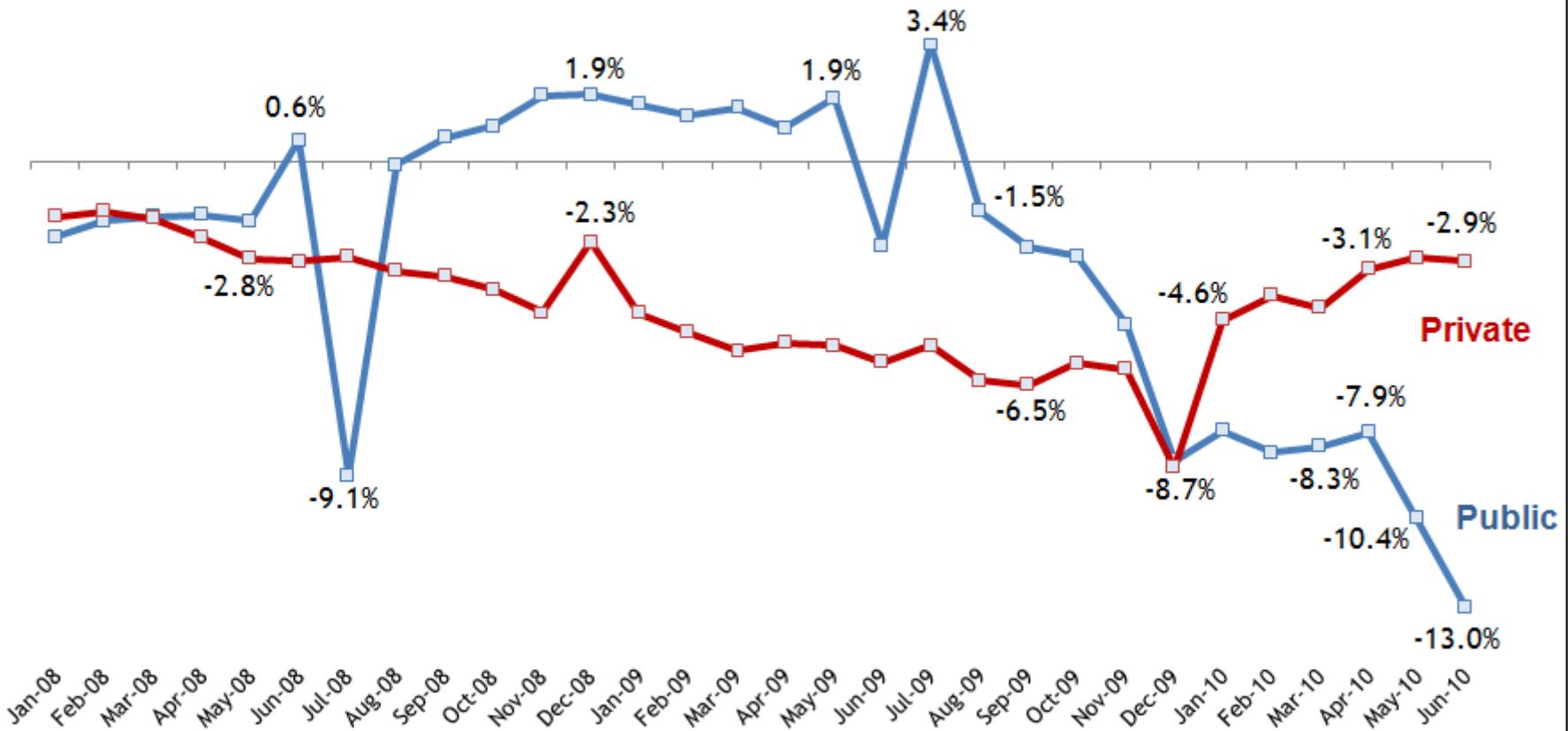


Improvement in the EAI during month of June 2010 was not achieved since April 2008



Private sector jaw is opening since December 2009 versus the public sector, an intended result of the Reconstruction Plan

Employment Public vs. Private Sector (Year-over-year Change)

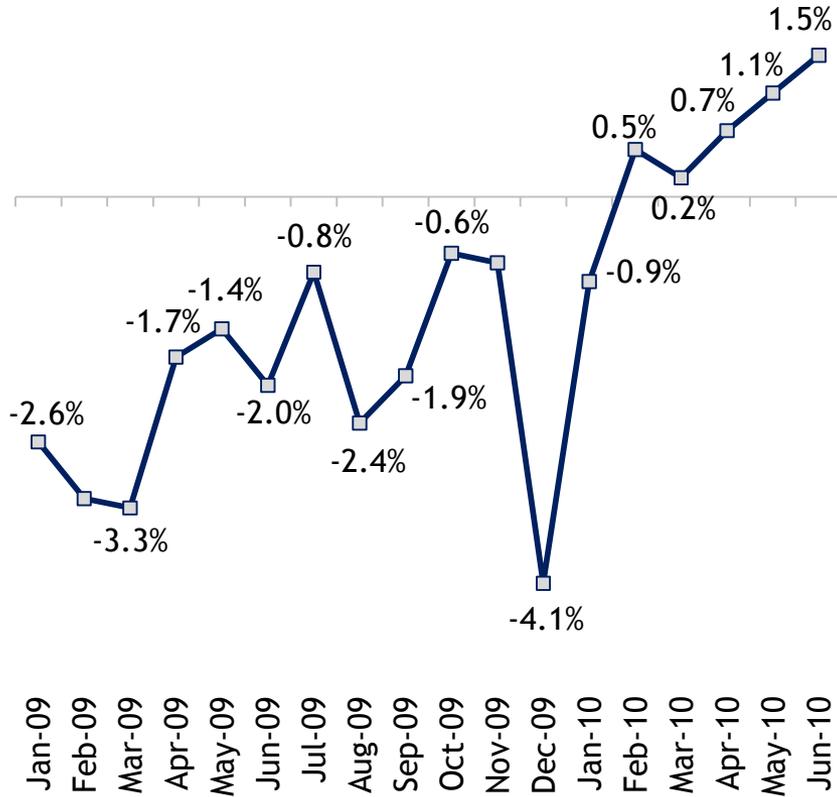




Service sector and manufacturing employment are showing signals of stabilization since January 2010

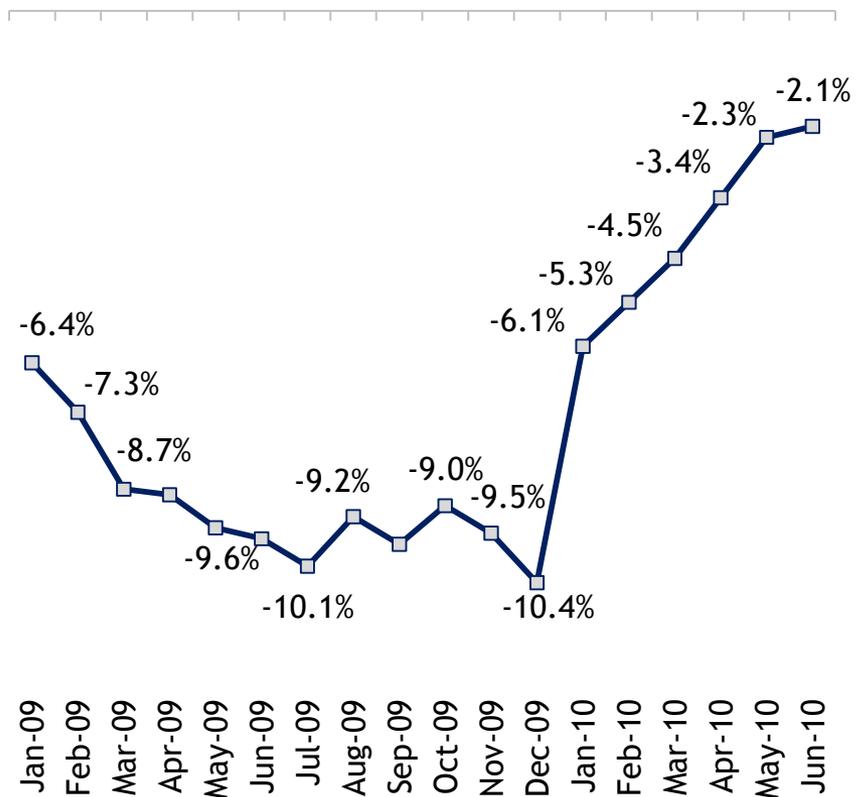
Service Sector Employment

% Year-over-year change



Manufacturing Employment

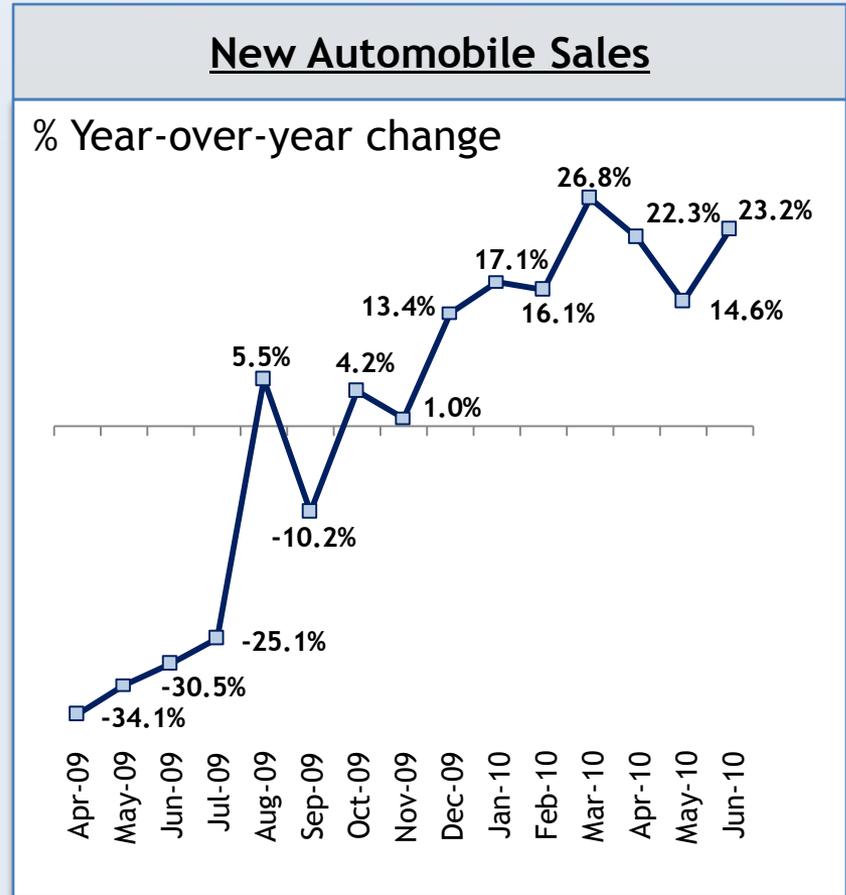
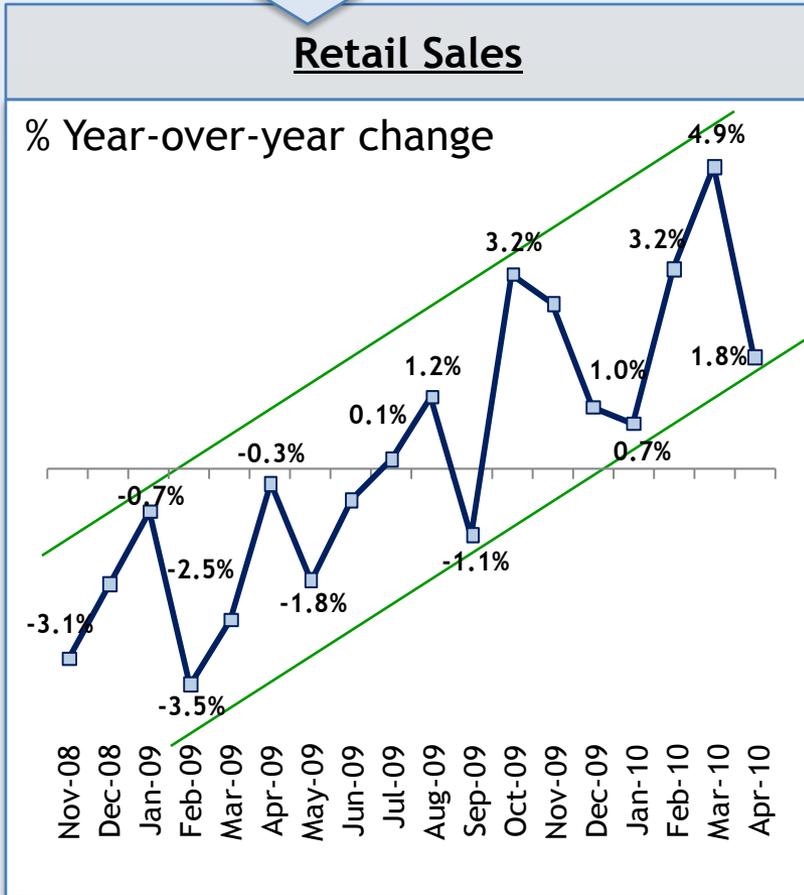
% Year-over-year change





Consumption, another key sector in the economy, is also showing improvement...

The level of retail sales registered during the month from January to March 2010 was the highest one registered since the series was first studied in 1983

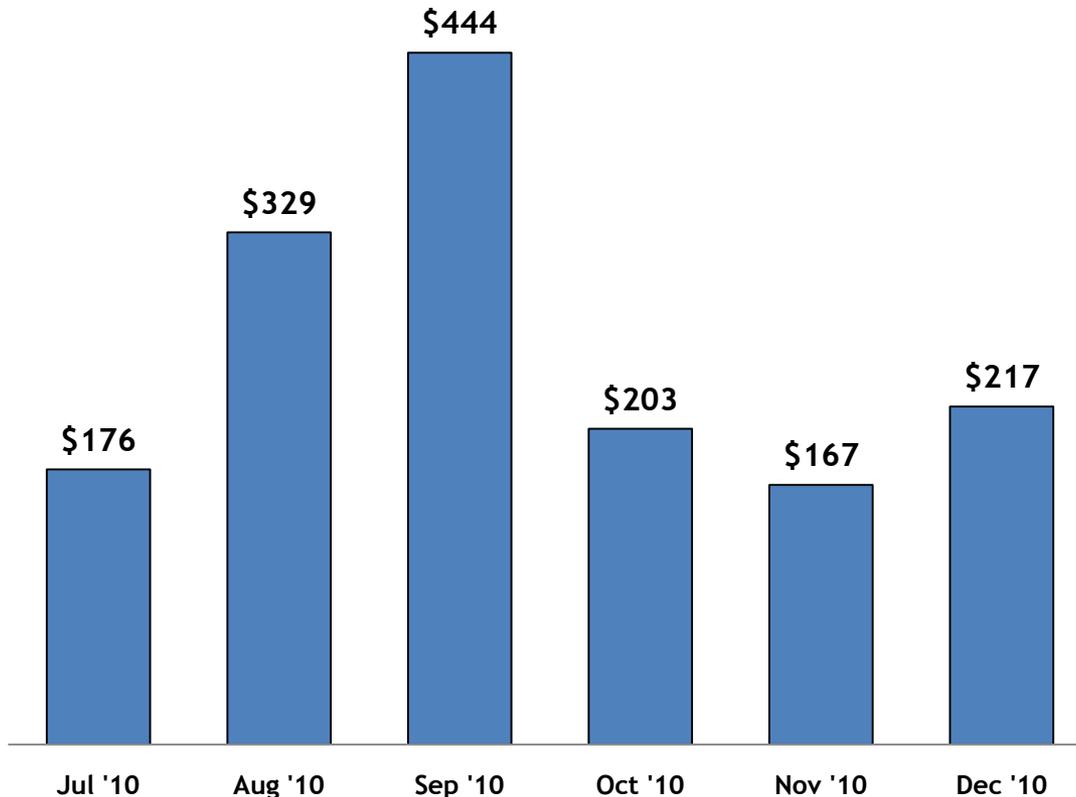




ARRA Funds disbursed to date are \$3.2 billion with plans to disburse an additional \$1.5 billion by December 2010

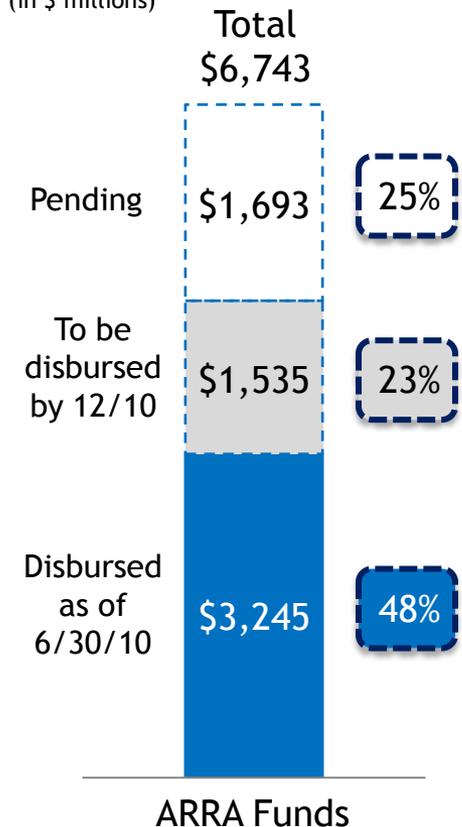
ARRA Funds Disbursement Projection (Jul-Dec 2010)

(in \$ millions)



Projected Disbursements by Dec-2010

(in \$ millions)





1st half of FY 2011 will experience active disbursements that will focus in infrastructure and work incentive credits

Q1: Main Projects



Isla Grande Airport Runway - \$6 MM



Hybrid Buses - \$17 MM



State Energy Program - \$18 MM



Work Pay Credit - \$400 MM

Q2: Main Projects



Low Income Housing - \$34 MM



Sewage Rural Development - \$2 MM



Road Rehabilitation - \$31 MM



\$255 million of the Local Stimulus Program have been directed to immediate investment in the economy, 71% of them in infrastructure

Priorities of the Local Stimulus Plan

TRANSPORTATION



BRT Toa Baja
(\$55 MM)

Intersection PR-5
(\$33.1 MM)

Intersection PR-177
Bayamón
(\$5.5 MM)

TOURISM



Golden Triangle
(\$25 MM)

Construction
of New Hotels
(\$15 MM)

Aguadilla Airport
and Pier 3
(\$5.2 MM)

Disbursed

PUBLIC-PRIVATE PARTNERSHIPS

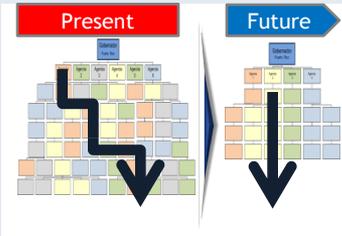


Pre-development
costs - P3
(\$20.5 MM)

Disbursed



GOVERNMENT TRANSFORMATION



Implementation of
Permits Act
(\$4 MM)

SUPPORT TO BUSINESSES



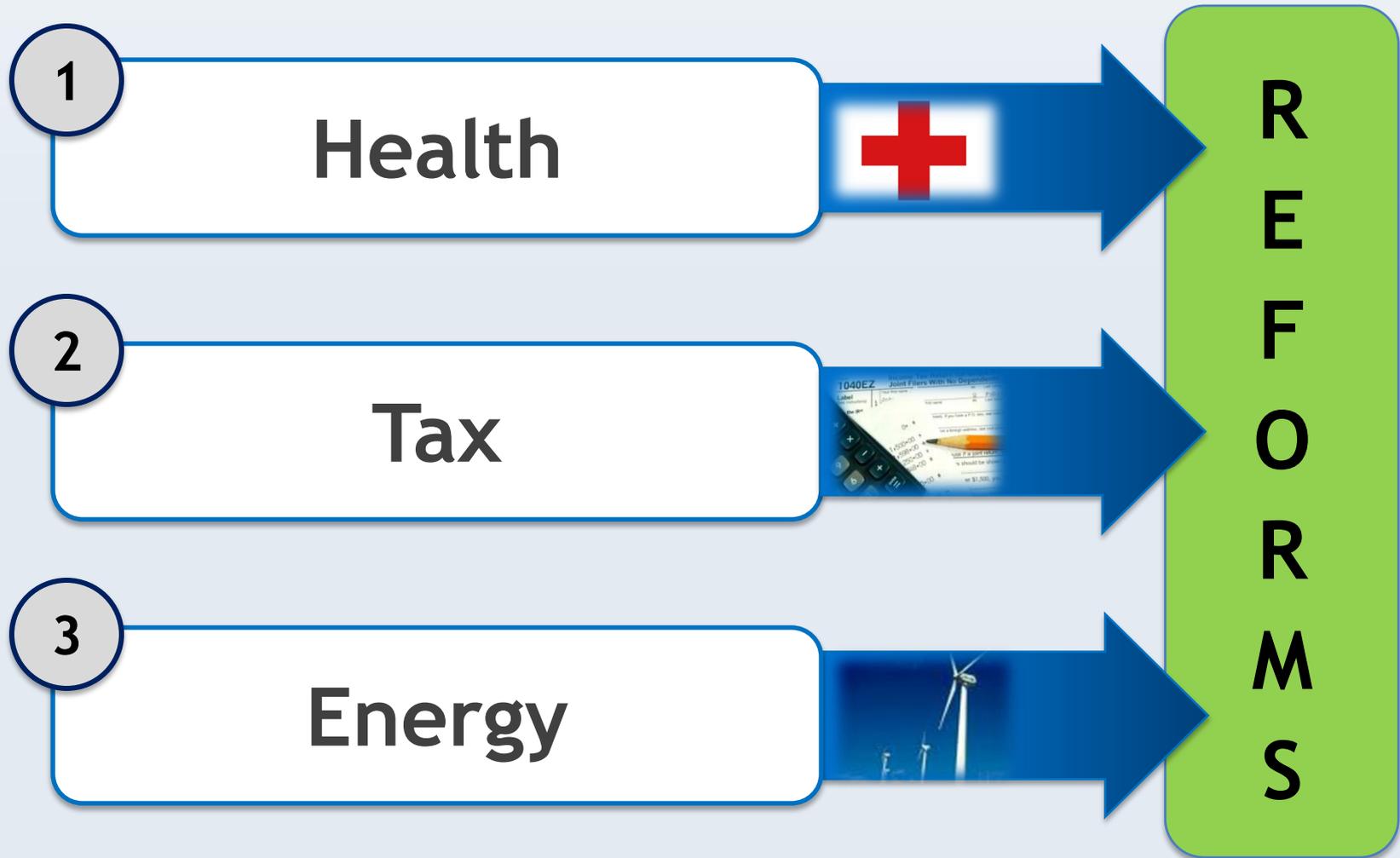
“Desarrollo Pa’l
Pueblo”
(\$8 MM)

Support to small/
medium businesses
(PyMEs) (\$40 MM)

Closing costs bonus
(\$10 MM)

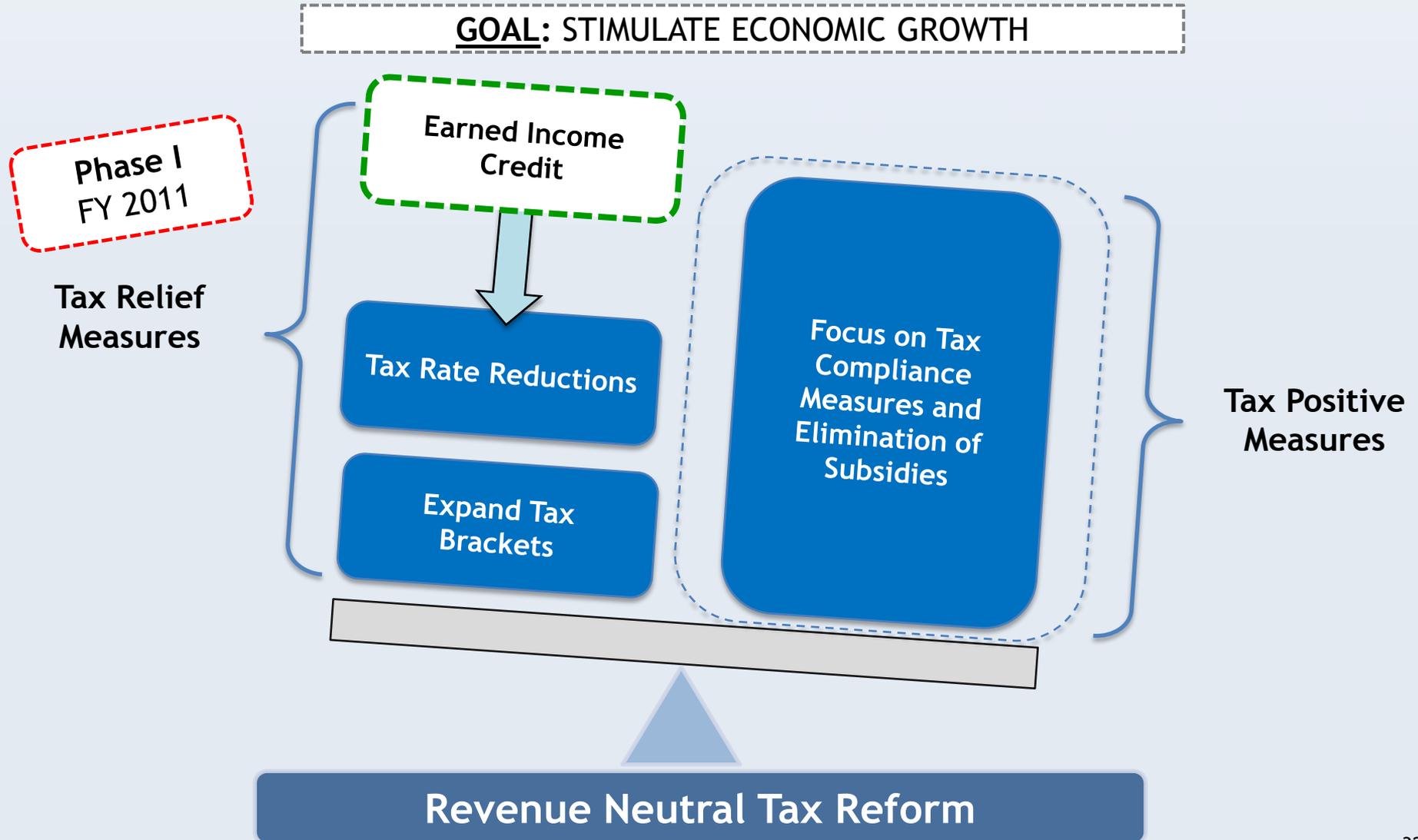
Disbursed

Reforms in three key areas are paving the highway to reconstruction



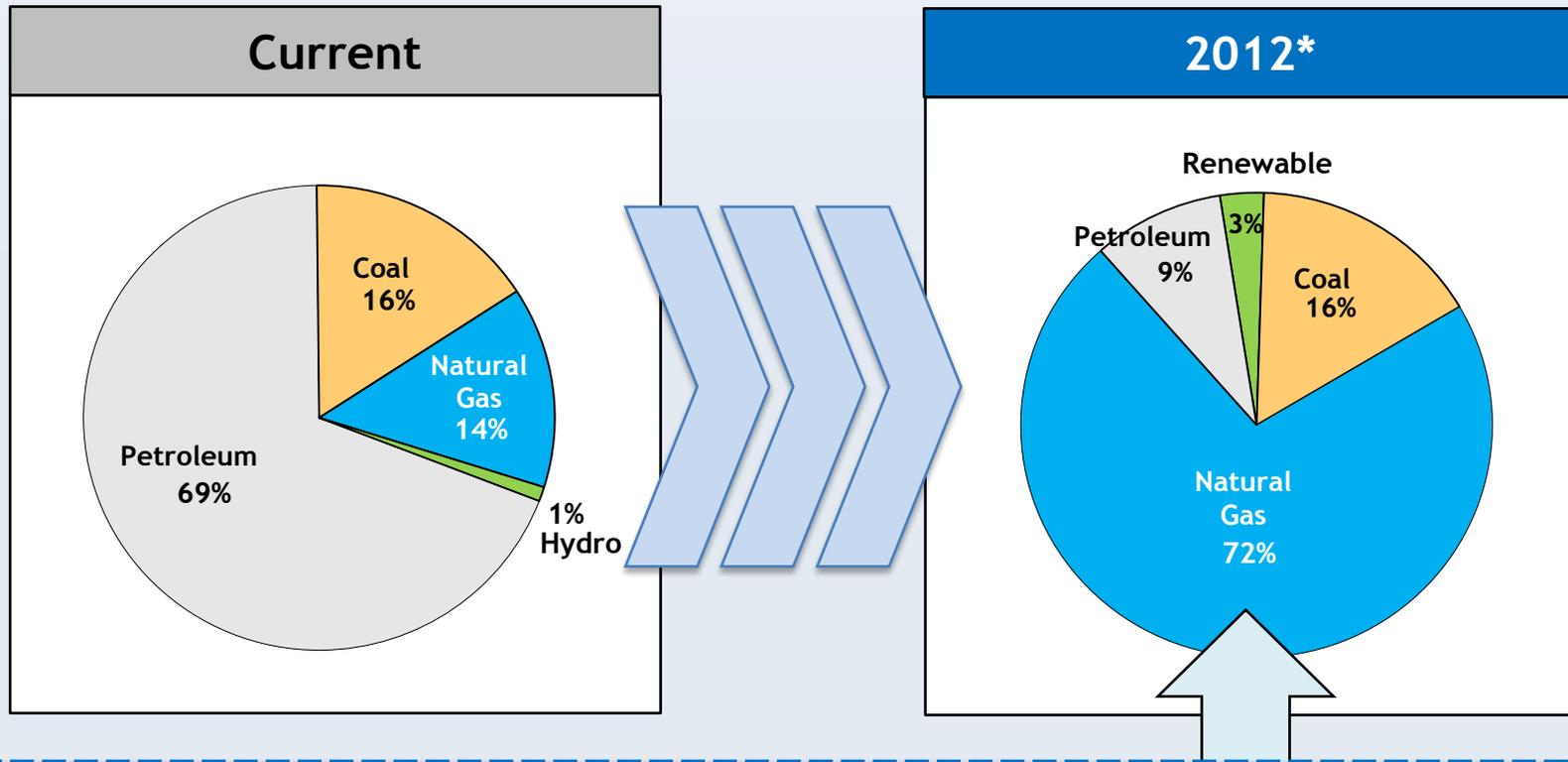


Tax Reform implementation will occur in phases and in complete synchronization with our plan to balance the budget by FY 2013





Energy Reform will implement an aggressive fuel mix diversification to lower energy costs through Public-Private Partnerships and PREPA initiatives



Fuel cost projections show how natural gas should remain stable in the long-term while other fossil fuels such as oil is projected to triple its price

* Generation mix as a percentage of forecasted peak load



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1

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2

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3

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4

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5

Other Matters

6

Delivering Results

We are jump-starting investment in infrastructure through PPPs

Landmark infrastructure projects for the economic development of Puerto Rico

Development of Toll Roads



Modernization of 100 Schools



Enhancement of Airport



New Natural Gas Plant



Improve Metering System

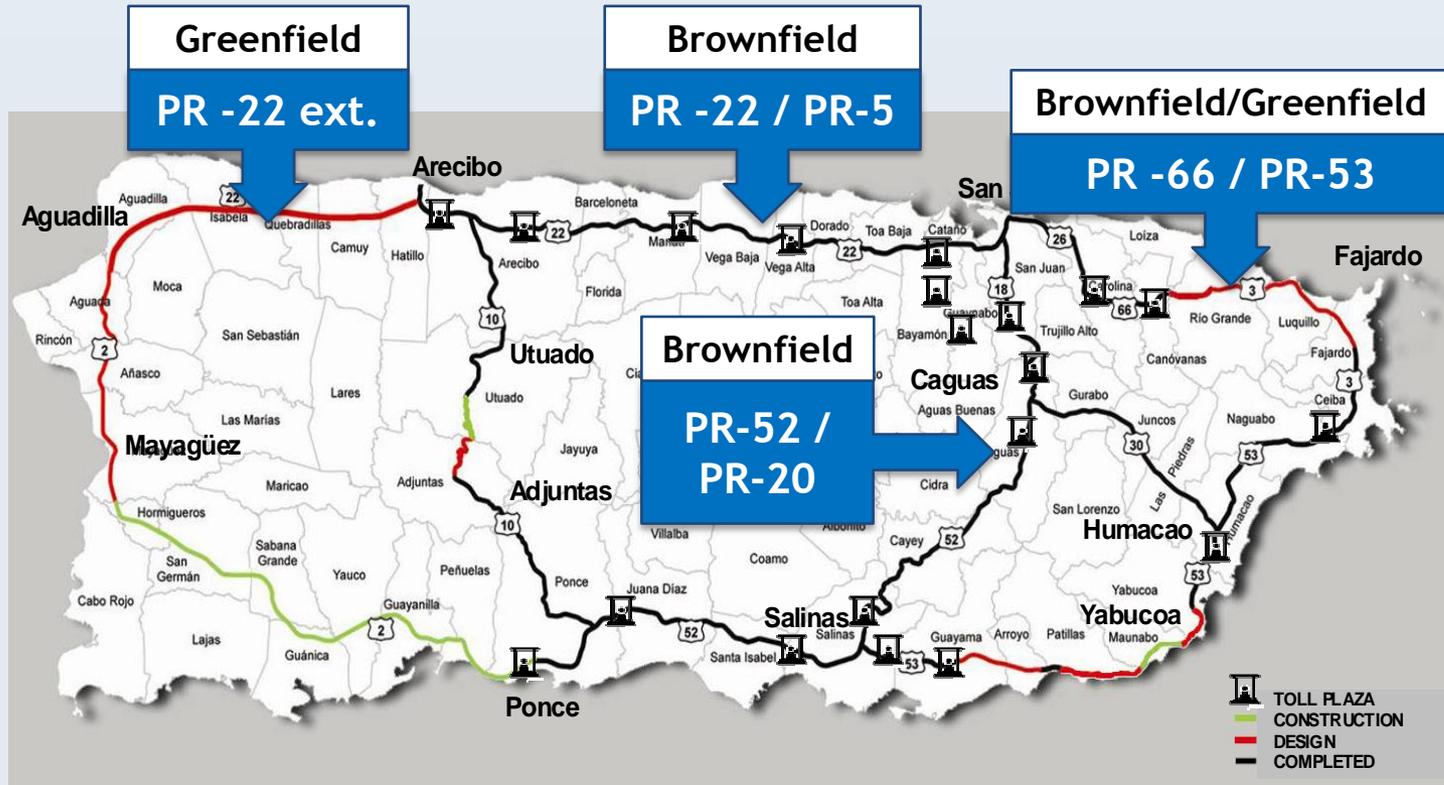




Toll Roads Program

Main project objectives:

- Substantially improve mobility throughout Puerto Rico
- Capital improvements
- Job creation
- Fiscal strengthening and debt defeasance



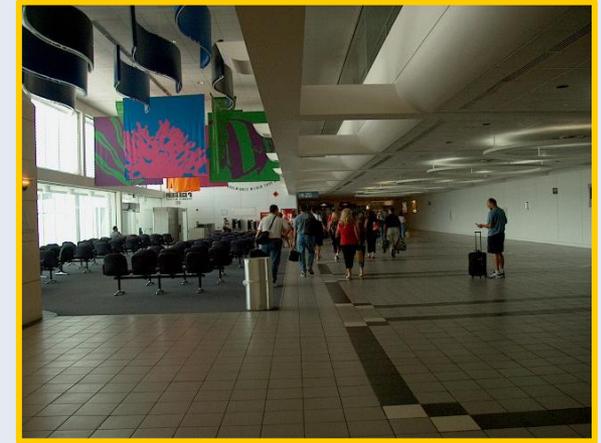


Airport Project

Main project objectives:

- Strengthen Puerto Rico as preferred Caribbean destination
- Increase in passengers and flights
- Capital improvements
- Job creation
- Fiscal strengthening and debt defeasance

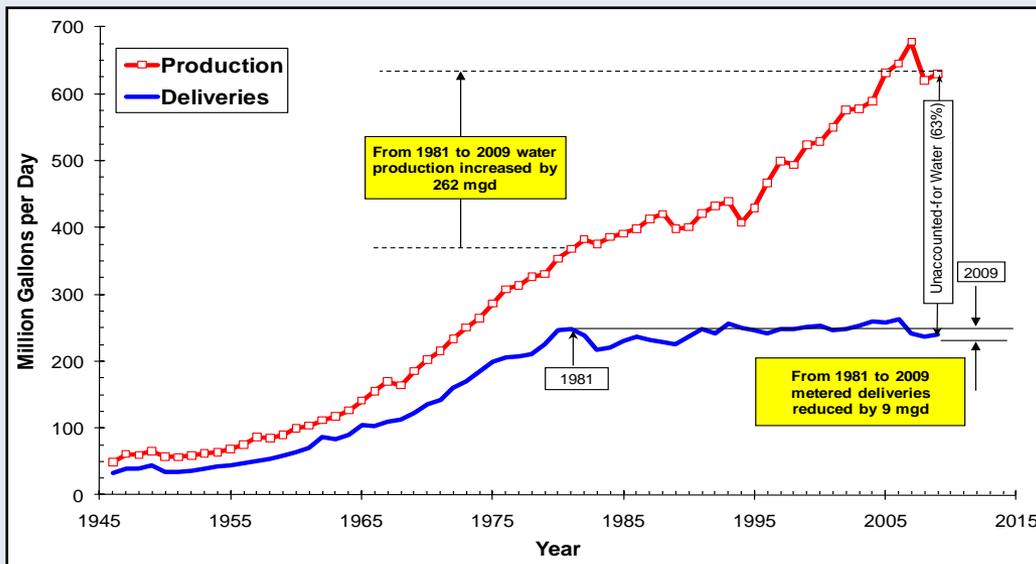
A core infrastructure asset that can spearhead economic development



Main project objectives:

- Reduce non-revenue water
- Deliver substantial service efficiencies
- Improve in metering and customer service technology
- Job creation
- Fiscal strengthening of PRASA

The Non-Revenue Water Challenge



The Reality on the Ground



No meter installed

Energy - Natural Gas Project

Main project objectives:

- Reduce cost of electricity in Puerto Rico
- Contribute to the natural gas transition in Puerto Rico
- Reduce environmental cost of burning oil # 6
- Strengthen PREPA's capacity by replacing a 1960 plant
- Bring about \$350 million in investment

A Greenfield Natural Gas Project that Makes Complete Sense to Puerto Rico

South Coast Area: the only Natural Gas Port in Puerto Rico



Sites for the New Plant have been Identified





PPP Projects Continue to Make Substantial Progress

Next Milestones

Tentative and Preliminary Calendar*					
Assets	Desirability Study		RFQ <i>(Request for Qualifications)</i>	RFP <i>(Request for Proposals)</i>	Best and Final Offers
	Approval	Release			
Schools (‘School Modernization’)	May 28	Jun 2	Jun 22	Aug. 4	30 Sep.
Energy - Phase I (South Coast Plant)	28 May	30 Jul	Completed	Aug. 27	15 Dec.
Toll Roads (Phase I: Brownfield)	28 May	2 Jun	Jun 15	Aug. 27	17 Dec.
Airport SJU (Concession)	28 May	2 Jun	Nov. 26	Dec. 17	Mar. 25
Water (Remote Metering)	28 May	2 Jun	Jun 15	Aug. 6	Nov. 5

* Preliminary and subject to change.



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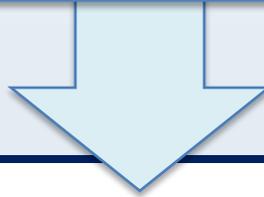
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Delivering Results



Commonwealth's Financial Statements

Event Notice to be Filed: July 22, 2010



- The Commonwealth expects to file the 2009 Financial Statements by no later than October 30, 2010.
- The Commonwealth, however, will publish and file selected unaudited financial data for the fiscal year ended June 30, 2009 on or about August 15, 2010.
- The Commonwealth is implementing measures to ensure future timely filings of its audited financial statements.



Active transaction calendar so far this year...

1st Quarter

Completed Transaction:

COFINA

2010 Series A - \$1,824 MM

PREPA

Banks L/C take out - \$822 MM

First half of 2010 has been very active in the capital markets

2nd Quarter

Completed Transaction:

PREPA

BAB's Bank L/C take out - \$320 MM

Refunding - \$631 MM

FRN bond exchange - \$363 MM

Refunding & L/C take out - \$478 MM

PRHTA

Mandatory Tender - \$300 MM

COFINA

2010 Series C - \$1,619 MM



Second half of 2010 will center around GO debt restructuring and TRANs issuance

Second Semester CY 2010*

GDB

Notes Issuance - \$1.3 B

GO

Debt Restructuring - \$420 MM

TRAN's Issuance - \$900 MM

PBA

Debt Restructuring - \$150 MM

QSCBs - \$750 MM

GO

Term-out Liquidity facility expiration - \$330 MM*

* Preliminary and subject to change



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1

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2

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3

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4

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5

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6

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Our Reconstruction Plan continues to deliver results...



We have instituted responsible budgetary practices surpassing budgeted revenues two years in a row



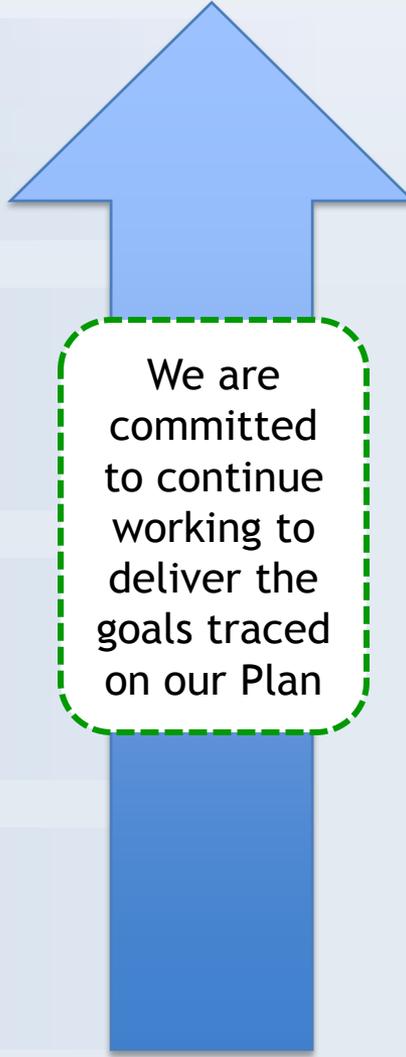
5 consecutive months of improvement in economic activity index



Approved budget for FY2011 reduces deficit financed from 45% of revenues in FY2009 to 10.9% in FY 2011



Poised for credit rating upgrade / upward outlook revision



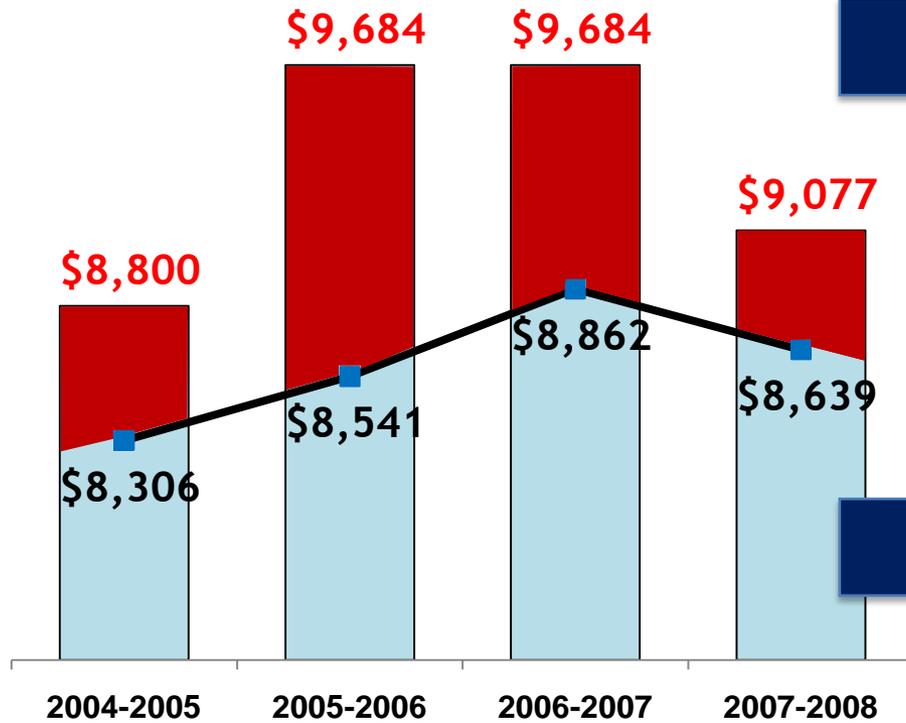
We are committed to continue working to deliver the goals traced on our Plan



Practice of overestimating revenues to meet budget gaps is OVER...

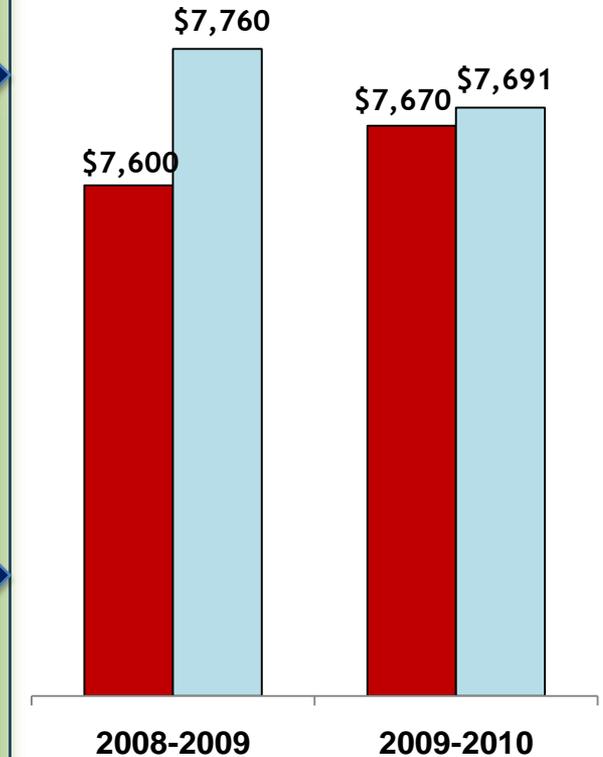
Constant past pattern of overestimating revenues

(in \$ millions)



— Budgeted Revenues — Actual Revenues

Two straight years surpassing revenue estimates

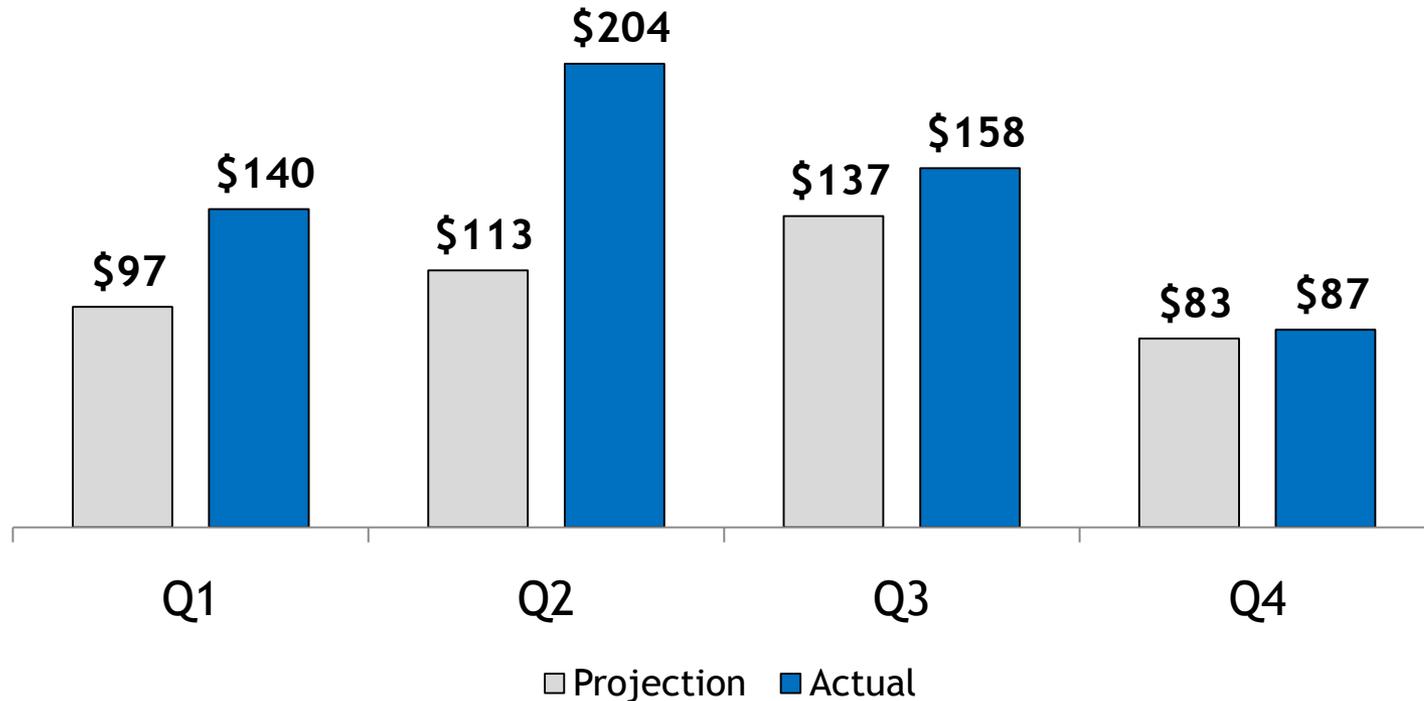




We have established strong and predictable cash flow management, surpassing the four quarterly estimates for FY 2010

Ending Cash Balance per Quarter FY 2010

(in \$ millions)

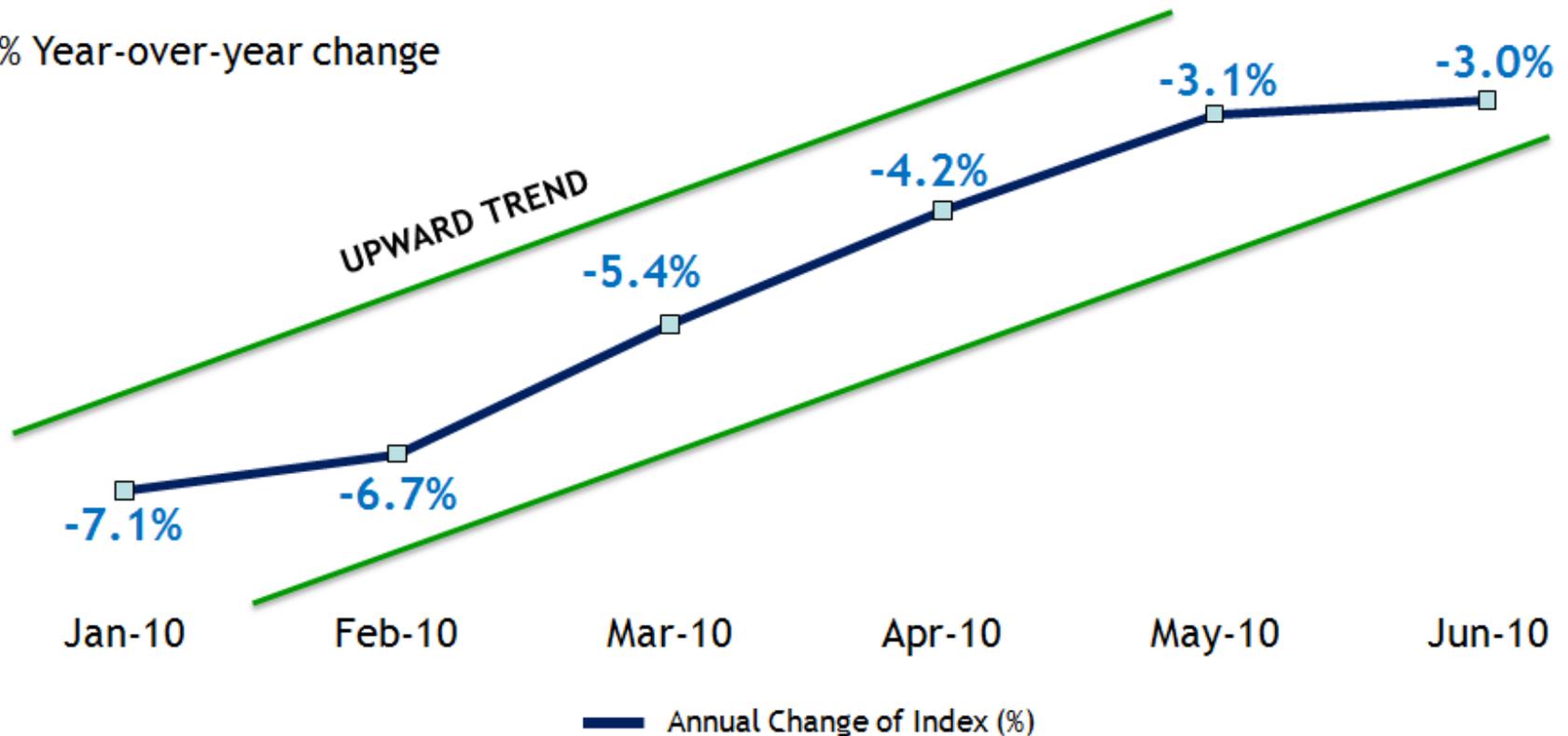




Economic activity since January is showing further signs of improvement...

EAI - 2nd Half FY 2010

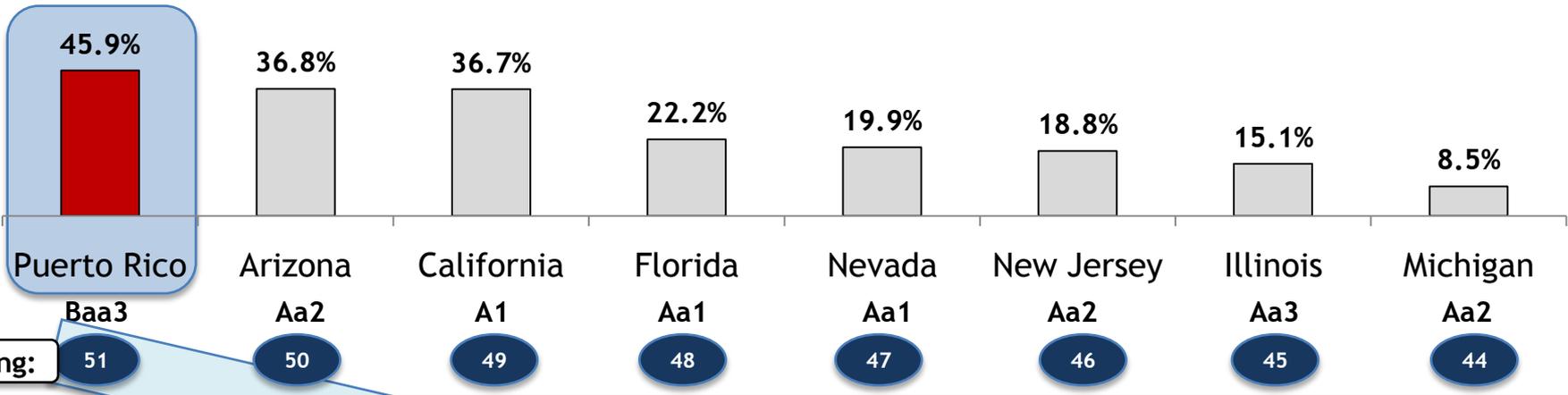
% Year-over-year change



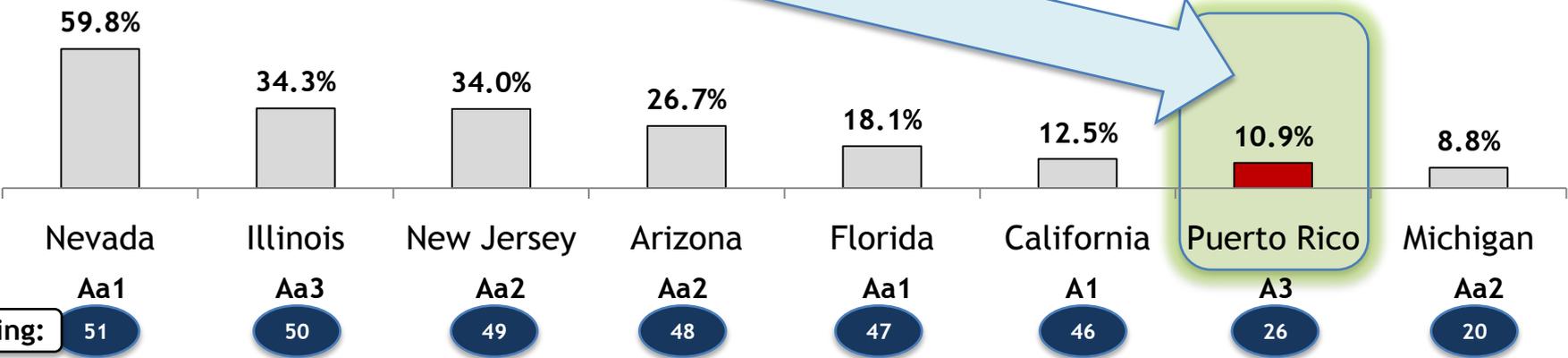


We have shown significant fiscal progress when compared to other States

Deficit as a % of Revenues for FY2008-2009



Budgeted deficit as a % of Revenues for FY2010-2011





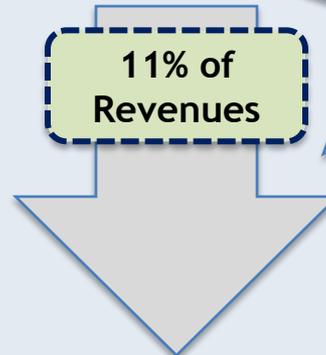
Approved budget for FY 10-11 reduces deficit financed from 45% of revenues in FY 08-09 to 10.9% in FY 10-11

71% or
\$2.1 billion
reduction

FY 08-09
Expenses
\$11,250
\$3,490 Deficit

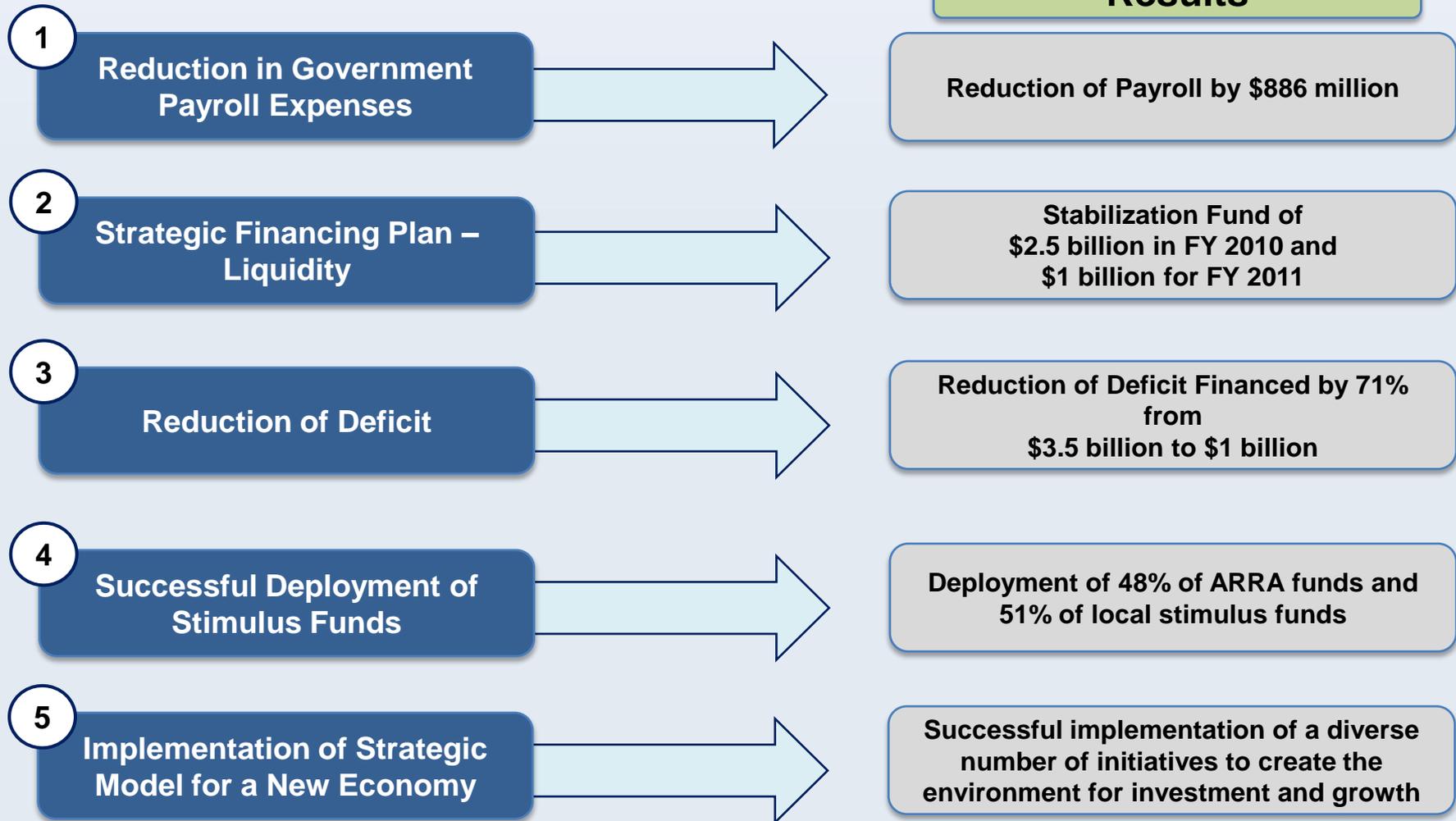
FY 09-10
Budget
\$10,170
\$2,500 Deficit

FY 10-11
Approved
\$9,133
\$1,000 Deficit





The fiscal reconstruction progress achieved, places Puerto Rico in an excellent position to receive a credit rating upgrade or positive change in outlook





Puerto Rico
“Ahead of the Curve”
with the successful implementation of its
Fiscal and Economic Reconstruction Plan

Investor Webcast

July 22, 2010