

**Ambac**

Commercial Mortgage-Backed Securities Offering Effectively Securitises French Telecom Real Estate Holdings

€355,452,000

European Property Capital I

Securitization of French Telephone Exchanges

In the highly competitive and ever-changing telecom sector, creativity in financial management can strengthen major telecom providers, better positioning them for future challenges. Earlier this year, Ambac participated in a complex transaction to effectively securitise French real estate holdings that include regional telephone exchanges, an essential part of France Telecom's fixed line telephone network. To improve the credit rating of the deal, help investors gain comfort with the transaction and attract a different investor base from the traditional France Telecom investors, JP Morgan, the arranger, sought to include a financial guarantee as part of the offering. Ambac Assurance UK Limited, with experience wrapping similar deals in Italy and the U.K., agreed to help structure the deal and provide a financial guarantee conferring triple-A ratings on the €356 million note issue.

The properties include nearly 300 regional telephone exchanges as well as 95 other properties, primarily corporate offices. The office properties are expected to be sold during the life of the nine-year transaction. The commercial mortgage-backed securities offering will refinance an acquisition facility put in place when subsidiaries of Foncière des Régions purchased the underlying real estate from France Telecom. France Telecom originally sold and then leased back the properties to Foncière des Régions in October 2002. The maximum lease term is nine years.

The notes were issued in February 2004 by European Property Capital 1, a French law fonds commun de de créances. The issue is the first commercial mortgage-backed securities offering in France benefiting from a guarantee by a monoline insurance company. The floating rate notes, maturing in 2013, are secured on a loan to subsidiaries of Foncière des Régions that is guaranteed by Ambac. Noteholders therefore achieve the benefit of the Ambac guarantee through the structure although the notes are not directly guaranteed.

► Financial Peace of Mind.®

This report has been prepared by Ambac Assurance Corporation and its affiliate, Ambac Assurance UK Limited (together "Ambac"). It is distributed outside the United States and solely to assist issuers and their underwriters and financial advisors in gaining a better understanding of Ambac's expertise as a financial services group. This report may not be circulated in the United States or to any U.S. person. The products offered by Ambac and described herein have not been and will not be registered under the U.S. Securities Act. The relevant contents of this report have been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Ambac Assurance UK Limited of Level 7, 6 Broadgate, London EC2M 2QS. Ambac Assurance UK Limited is authorised and regulated by the Financial Services Authority. This report was written by personnel of Ambac, based on information available and believed to be accurate and complete as of March 16, 2004, the date the report was issued (the "Issuance Date"), which information was obtained from sources believed to be reliable. However, because of the possibility of error and the occurrence of subsequent events, Ambac does not guarantee the accuracy or completeness of this report as of the Issuance Date or its continued accuracy as of any date subsequent thereto. This report is distributed for information purposes only and nothing contained herein should be viewed as investment advice or as constituting a recommendation to buy, hold or sell the obligations described herein. Ambac has insured the bond and interest rate swap intermediation agreement described above and has received fees for the issue of financial guarantee insurance policies and interest rate swap intermediation agreements covering such obligations. In addition, Ambac may from time to time provide other investment or financial products or other services for, or solicit other business from, or invest in securities of, the issuer of the obligations described in this report. JP Morgan was the underwriter on the deal.

Miguel Sanchez
Managing Director
44 20 7786 4304
msanchez@ambac.co.uk

London
Milan
New York
Sydney
Tokyo