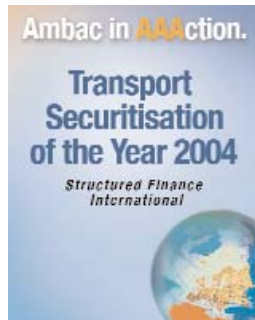


Ambac Guarantees £492 Million of Senior Debt Obligations in Tube Lines Refinancing



£492,000,000

Tube Lines Finance plc

Tranched Refinancing of Project Loans

In 2003 after several years of widely acknowledged under-investment in London's Underground system, the UK's Ministry of Transport put in place three Public Private Partnerships (PPPs) to accomplish and manage needed and ongoing system improvements. Under the PPP contracts, three specially formed private sector entities, owned by leading companies in the rail sector, will upgrade the system's infrastructure and trains. The 30-year PPP contracts were entered into with Transport for London (TfL), the public sector agency responsible for all mass transit in London. TfL will pay annual fees for the services provided, after deducting penalties where the services provided are below par. Upgrades to the Underground system are being funded by the PPPs through debt issuance based on these 30-year concession agreements.

Ambac Assurance UK Limited was involved in all three of the original financings, guaranteeing in excess of £1.1 billion of bond and bank debt. During 2004 Tube Lines, the company responsible for the Jubilee, Northern and Piccadilly lines decided to refinance its original bank debt. To strengthen the transaction and reassure investors, Ambac was asked to continue its involvement with Tube Lines in this high profile and innovative refinancing. The resulting transaction materially lowered Tube Lines' borrowing costs, providing significant benefit to the public sector.

The total refinancing package was in excess of £2.1 billion, with Ambac guaranteeing £300m of European Investment Bank debt. Ambac will act as controlling creditor on the transaction, providing Tube Lines with a single point of contact and the ability to build a long-term cooperative relationship suited to the dynamic and flexible nature of the underlying concession.

The remaining new debt- approximately £1.8 billion- was raised in the capital markets. The debt was tranched, with the senior tranche being aligned with the financial support provided by AA-rated TfL. On this debt, Ambac provided a guarantee of up to £192 million of interest payments, necessary to avoid any potential timing mismatches on TfL-supported payments. This ensures that the senior tranche of capital market debt matches TfL's rating level. The nature of the senior tranche allowed the debt to be marketed to municipal investors, achieving significant pricing benefits compared with project debt.

The complex transaction required that a large number of public and private sector participants understand and agree to its more novel aspects. The hybrid transaction combines securitisation, project finance and municipal funding aspects. In addition, the 30-year period is divided into four 7.5-year review periods, which provide the opportunity for the contract requirements and revenues to be modified under the control of an independent contract arbiter, providing a form of regulatory support.

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Ambac's role as the senior creditor controlling all day-to-day matters requires an understanding of the underlying obligations and the balancing of these elements in the complex PPP contract. Ambac provides Tube Lines and TfL with fast and efficient decision making and a high degree of commercial flexibility where the parties require changes in order to provide further enhancements to the London Underground system.

For additional information, please contact:

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