

**Ambac**

Landmark Financing of UK Gas Distribution Networks Marks First Monoline Guarantee of Gas Distribution Networks in Europe

£673,000,000
Scotia Gas Networks PLC
Gas Distribution Networks

Ongoing restructuring and privatization activity in the U.K has come to include the gas transportation industry as National Grid Transco (now National Grid plc), previously the sole owner and operator of the UK's regional gas distribution infrastructure, sold four of its eight Regional Distribution Networks in June 2005. Scotia Gas Networks, a newly created entity formed by Scottish and Southern Energy plc, OTPPB Investments (U.K.) Limited and Borealis Infrastructure Europe (UK) Limited, acquired two of those regional distributors, Scotland Gas Networks and Southern Gas Networks. To refinance acquisition debt, both Scotland and Southern Gas Networks sought to issue more attractively priced debt shortly after completion of the sales.

In structuring a debt offering, Scotland Gas and Southern Gas benefited from stable cash flows generated under a supportive UK regulatory regime and an ownership structure that includes long-term shareholders, including Scottish and Southern Energy. Certain corporate and management services for the gas networks will be provided by the vertically integrated gas and electricity utility based in the UK. The transactions were additionally strengthened through covenant limitations on further indebtedness and distributions included in the structure. The deals marked the entry of a major new asset class to the European capital markets. To underscore the strength of the transactions and reassure investors, the issuers sought financial guarantees on the various tranches planned.

With significant experience in guaranteeing core infrastructure and utility assets, including particular familiarity with the strong regulatory regime supporting such assets, Ambac agreed to guarantee £673 million of fixed and floating notes issued by Scotland Gas Networks and Southern Gas Networks. Ambac worked with the networks' management to develop a structure with a high level of flexibility, while still preserving sufficient key structural features to provide AAA bondholders with adequate protection. The landmark transaction, arranged by Barclays Capital, is the first monoline guaranteed financing of Gas Distribution Networks in Europe,

The Notes were issued in October 2005. Despite the substantial transaction size, the Notes received strong demand and were more than three times over-subscribed. This deal was awarded "Corporate Securitisation of the Year" by *Structured Finance International*.

► 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. It is approved for issuance in the UK by Ambac Assurance UK Limited, authorised and regulated by the Financial Services Authority. The report was written by personnel of Ambac Assurance based on information available and believed to be accurate and complete as of October 21, 2005, the date on which the obligations described above were issued (the "Issuance Date"), which information was obtained from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources and the occurrence of subsequent events, Ambac Assurance 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 Assurance has insured the obligations described above and received fees for the issuance of a financial guarantee insurance policy covering such obligations. In addition, Ambac Assurance (or its affiliates) may from time to time provide 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. Barclays Bank PLC was the arranger on this transaction.

© 2006 Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004
All Rights Reserved | 800-221-1854 | www.ambac.com

ABK
Listed
NYSE



Mark Cheng
First Vice President
+44 20 7786 4313
mcheng@ambac-uk.com

London
Milan
New York
Sydney
Tokyo