

RNS Scottish & Sthn.Engy SSE Acquisition
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Scottish & Southern Energy PLC
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SCOTTISH AND SOUTHERN ENERGY PLC
INVESTMENT IN GAS DISTRIBUTION NETWORKS

A consortium in which Scottish and Southern Energy plc ("SSE") holds 50 per cent of the equity has agreed to acquire the Scotland and the South of England gas distribution networks from National Grid Transco ("Transco"). The remainder of the equity in the consortium, plus the provision of a financial instrument, is split equally between Borealis Infrastructure ("Borealis") and Ontario Teachers' Pension Plan ("Teachers").

The acquisitions remain subject to approvals from Ofgem and from the Health and Safety Executive and are expected to be completed in the spring of 2005.

The total value of the acquisitions will be £3,162m. They are expected to be funded by £1,038.8m of equity and £2,081.2m of non-recourse borrowings, plus a financial instrument held by Borealis and Teachers.

In summary, this will require SSE to make an investment of £519.4m in cash to acquire its 50% interest in the two gas networks. In return, it will receive 50% of the distributable earnings from the networks.

Upon completion of the acquisitions, SSE will provide certain corporate and management services for the gas networks under an agreement with the consortium. In return, it will receive an annual management charge, based on the cost of providing these services.

The two gas distribution networks already trade as separate businesses within Transco. The Scotland network comprises around 24,000km of gas mains, delivering gas to 1.7m industrial, commercial and domestic customers. The South of England network comprises around 49,000km of gas mains, delivering gas to around 3.9m industrial, commercial and domestic customers.

These acquisitions will make SSE the second largest energy distribution company in the UK. SSE is already recognised as being an efficient operator. The two networks will, therefore, benefit from the adoption of SSE's well-established approach to efficiency in network operation, combined with other performance improvement initiatives. This will build on the progress made by the two networks themselves in recent years. There is also significant geographical overlap between the two gas distribution networks and SSE's existing electricity distribution businesses in the north of Scotland and central south England. This will provide opportunities to create value through the delivery of efficiencies. This investment in gas distribution networks is expected to provide SSE's Contracting and Connections businesses with opportunities to expand their activities and it may also provide opportunities in gas metering and in the provision and maintenance of gas equipment.

This investment is expected to enhance SSE's earnings in the first year after completion of the acquisitions, and thereafter.

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Ian Marchant, Chief Executive of SSE, said:

"We have been working very closely with our partners for almost a year now, and I am very pleased that this has culminated in this agreement with NGT. I believe that today's announcement is a good outcome for all concerned, including gas customers in Scotland and the South of England.

It means that our interests in energy networks will expand, thus maintaining the overall balance within SSE between regulated network businesses and Generation and Supply, which has grown significantly over the past two years. The growth in earnings which we expect it to deliver will complement the organic growth which we are achieving through our existing programme of investment in renewable electricity generation, gas storage and electricity networks.

Demand for gas in the UK is expected to grow significantly over the next decade, which will underline the value of gas distribution assets. We will also be able to support the asset value of the networks further through efficient capital expenditure.

The ownership of two gas distribution networks will confirm SSE as a significant player in the gas sector, with interests in storage, distribution and supply. We are looking forward to working with our new colleagues and to benefiting from their experience in operating the two networks safely and reliably.

This investment is a positive step forward for SSE. Our focus, together with our consortium partners, over the next few months will be on completing the acquisition process and then ensuring that the change of ownership is as successful as possible. Over the long term, I believe that the addition of gas distribution networks to SSE's portfolio of energy businesses in the UK will make an important contribution to the delivery of our core aim of sustained real growth in our dividends."

Rob Watters, Senior Vice President at Borealis Infrastructure, said:

"The acquisition of these regulated gas distribution networks represents an important and strategic step in expanding Borealis' global reach and presence in infrastructure assets. Our partnership with SSE, a best-in-class operator, and Ontario Teachers, a like-minded long-term investor, represents an ideal investment opportunity for Borealis. "

Robert Bertram, Ontario Teachers' Executive Vice-President Investments, said:

"We are delighted to partner in the UK with such a top-level operator as SSE. This investment is a very good fit for our expanding infrastructure portfolio which seeks investment opportunities around the world. There is a sophisticated and transparent regulatory framework in the UK gas sector which provides a strong environment for investment. We are looking for similar opportunities to build our infrastructure portfolio."

ADDITIONAL INFORMATION

The Scotland gas distribution network employs around 800 people, operating from around 20 sites across the country. It also has a statutory responsibility to supply gas to four LNG systems and one LPG system in the Highlands and Islands. Its Regulated Asset Value (RAV), based on the current expenditure plan, is expected to be £817.6m in March 2005. In the year to March 2004 it distributed around 63TWh of gas and it achieved EBITDA of £63.4m.

The South of England gas distribution network covers an area which extends from

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Milton Keynes in the north to Dover in the east and Lyme Regis in the west, including London boroughs to the south of the River Thames. It employs around 1,200 people operating from over 30 sites. Its Regulated Asset Value (RAV), based on the current expenditure plan, is expected to be £2,055.6m in March 2005. In the year to March 2004 it distributed around 124TWh of gas and it achieved EBITDA of £167.9m.

Upon completion of the transactions, employees of the two gas distribution networks will become employees of the new companies. Their contractual terms and conditions will be unaffected by this transfer and will continue to be determined by means of company-wide negotiation and consultation. Employees who are still in employment at the point of transfer will be given the opportunity to join a new pension scheme with benefits and rights identical to those to which they are currently entitled. At completion, NGT will transfer the then current value of the pension schemes for the current employees to the gas distribution networks to the new pension schemes.

Borealis Infrastructure identifies, invests in and manages OMERS' infrastructure assets that provide institutional and large corporate investors with competitive and stable rates of return over a long investment horizon. Borealis Infrastructure is an OMERS investment entity. OMERS is one of Canada's largest pension funds, with approximately C\$34.0 billion in net investment assets. It provides retirement benefits to 340,000 members on behalf of 900 local government employers across Ontario.

The Ontario Teachers' Pension Plan is one of Canada's largest financial institutions with assets of C\$79 billion at 30 June 2004. It invests to secure the retirement income of over 250,000 active and retired teachers in the province of Ontario. The Ontario Teachers' Pension Plan has global infrastructure and timberland assets of C\$2.3 billion and is actively seeking to expand its portfolio.

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Note: The consortium's financial advisers were Dresdner Kleinwort Wasserstein and Lexicon Partners.