

Monday 9 February 2004

Eurotunnel proposes radical changes to cross-Channel rail industry

Eurotunnel has made proposals to the UK and French Governments and its industry partners which seek to address the structural problems faced by the cross-Channel rail industry.

The cross-Channel rail industry currently suffers from under-utilisation of expensive infrastructure, financial losses and conflicting contractual relationships. In particular the high level of access charges paid by rail companies for the use of the Channel Tunnel is holding back traffic growth. Eurotunnel's current financial structure leaves it with no scope to reduce these charges unilaterally.

Eurotunnel has conducted a detailed analysis of the industry for over a year in order to identify solutions for the complex issues underlying the industry's difficulties. The key elements of any solution must include the alignment of the interests of the cross-Channel operators and clear incentives to increase traffic through the Tunnel, within a stable financial structure.

Eurotunnel is proposing to significantly reduce access rates for train operators in a manner which will align the incentives of the cross-Channel operators and reduce their costs. This should enable Eurostar to increase its traffic to existing destinations and would assist the introduction of new destinations such as Amsterdam. Lower Tunnel access rates will also considerably increase the size of the economically viable cross-Channel rail freight market. The reduced access rates should therefore be partly compensated for by increased traffic.

To achieve these access charge reductions, Eurotunnel requires a more stable financial structure, which would involve a significant reduction in the amount of its debt and interest payments, as well as an extension of debt maturities. Eurotunnel and its advisers have developed a series of detailed proposals to meet these objectives. Eurotunnel now expects constructive engagement with its industrial and financial partners.

Eurotunnel is seeking to reach agreement in principle during 2004 with implementation in 2005. However, the issues are complex and there can be no assurance as to the eventual outcome at this stage.

Announcing the proposals, Richard Shirrefs, Eurotunnel Chief Executive said:
"The £10 billion cost of the Channel Tunnel was financed entirely by the private sector. In addition, taxpayers have directly or indirectly put around £15 billion into the infrastructure surrounding the Tunnel. However, traffic growth for Eurostar and rail freight is strangled by high tunnel access charges and we have too much debt to reduce them unilaterally. Taxpayers are not getting the benefit they should for their money and Eurotunnel's shareholders have seen a substantial loss on their investment."

"To enable reductions in Tunnel access charges, we need a definitive solution which improves our profitability and gets our financing onto a sensible and sustainable basis once and for all. The solution must also align the incentives for the cross-Channel operators to promote growth in rail passenger and freight volumes, and so bring wider economic and environmental benefits. The issues are not simple but a successful outcome would provide benefits to all stakeholders, including our shareholders."

Charles Mackay, Eurotunnel Chairman said:
"10 years after opening, it is clear that the contractual and financial arrangements originally put in place for the cross-Channel rail industry have failed to create an environment where the Channel Tunnel can realise its full potential. It took courage, imagination and real political will

to build the Channel Tunnel. We need a little more of each to finally get the most out of one of the great engineering triumphs of the 20th century.”

Notes to Editors:

Eurotunnel manages the infrastructure of the Channel Tunnel and operates accompanied truck shuttle and passenger shuttle (car and coach) services between Folkestone, UK and Calais/Coquelles, France. It is market leader for cross-Channel travel. Eurotunnel also earns toll revenue from other train operators (Eurostar for rail passengers, and EWS and SNCF for rail freight) which use the Tunnel. Eurotunnel is quoted on the London, Paris and Brussels Stock Exchanges.

The Treaty of Canterbury which set the original ambitious objectives for the Tunnel stated that the Tunnel should *“greatly improve communications between the United Kingdom and France and give fresh impetus to relations between the two countries, contribute to the development of relations and exchanges between the Member states of the European Communities and more generally between European States”*

The changes to the access rates will have no effect on the prices expected to be charged by Eurotunnel’s shuttle businesses to its passenger and truck customers.