NEWS

7 March 2007

2005 and 2006 results

on a going concern basis

<u>2005</u>: Net result a major loss

- **Impairment £1.75 billion**
- **Negative equity of £1.3 billion**

<u>2006</u>: Excellent operating results

- **Revenue up, to £568 million (+5%), with revenues from Shuttle activity up by +7%**
- **Excellent profitability from activities (operating margin / revenue), up four points to 59%**
- **Strong improvement in trading profit: +42% to £220 million**
- **Net loss due to the impact of financial charges: -£143 million**

<u>A Safeguard Plan to avoid bankruptcy</u>

2006 was a year devoted to restructuring of the company's operations and to negotiations with the creditors, initially to find a consensual agreement and subsequently, from 2 August onwards, in the context of a Safeguard Procedure. The Safeguard Plan put forward by the company was approved by the Paris Commercial Court on 15 January 2007.

The Joint Board of Eurotunnel approved the accounts for 2005 and 2006, on the basis of the Safeguard Plan, at its meeting, chaired by Jacques Gounon, on 6 March 2007.

The Auditors and Commissaires aux Comptes certified the accounts with matters of emphasis, notably regarding going concern. This depends upon the full implementation of the Safeguard Plan and, particularly, upon the success of the Exchange Tender Offer (ETO). If this was to fail, Eurotunnel would probably be put in liquidation.

2005 and 2006 results: net progress year on year

Prepared according to IFRS £ million	2006 Actual	2006/2005 % change	2005 Reported	2004 Restated	2005/2004 % change
Exchange rate €/£	**1.462**		**1.465**	**1.466**	
Shuttle services	318	+7%	295	285	+4%
Railways	240	+2%	235	234	-
Transport activities	558	+5%	530	519	+2%
Non-transport activities	10	-12%	11	19	-41%
Revenue	**568**	**+5%**	**541**	**538**	**+1%**
Operating costs	(233)	-4%	(242)	(251)	-4%
Operating margin	**335**	**+12%**	**299**	**287**	**+4%**
Depreciation	(115)		(146)	(159)	
Trading profit	**220**	**+42%**	**153**	**128**	**+19%**
Impairment	-		(1,750)	(336)	
Other operating income and (expenses)	5		(28)	(47)	
Operating profit / (loss)	**225**		**(1,625)**	**(255)**	
Net financial charges *	(368)		(346)	(332)	
Net loss	**(143)**		**(1,971)**	**(587)**	
Operating margin / revenue	*59%*	*+4 pts*	*55%*	*53%*	*+2 pts*

** Including the net cost of financing and debt service, other financial income and charges and income tax expense.*

Negative equity, but operations growing strongly

The 2005 accounts show negative equity of £1.3 billion, on 31 December 2005, following an impairment which reduced the asset value to £5.1 billion.
The operations, following a period of substantial reorganisation, were already showing significant improvement. The trading profit improved 19% compared to 2004, to £153 million.

In 2006, the operations were record making: revenue improved 5%, trading profit leapt by 42% to £220 million, and a corresponding profitability for activities of 59% (operating margin / revenue), up four points compared to 2005.

However, in the absence of a financial restructuring of the debt, the company was left with unsupportable financial charges (£368 million), which led to a net loss of £143 million. After restructuring, and assuming that this had taken place on 1 January 2006, the pro forma net result (that is to say with interest calculated on the basis of the new debt) would have been at break even for 2006, the final year of the MUC (Minimum Usage Charge).

Jacques Gounon, Chairman and Chief Executive declared, "*These excellent operating results clearly show that it will only be through the new company, Groupe Eurotunnel SA (GET SA), created as a result of Safeguard and the ETO, relieved of more than half of the current debt and with substantially reduced financial charges, that we will finally be able to remove the spectre of bankruptcy which threatened Eurotunnel in 2005*."

Annexes:
Summary combined accounts for 2005 and 2006
Financial analysis of 2005 and 2006 accounts

EUROTUNNEL'S

FINANCIAL ANALYSIS
AND
SUMMARY ACCOUNTS

2006

FINANCIAL ANALYSIS

Shuttle services revenues grew by 7% in 2006 and operating expenses reduced for the second year running, improving the operating margin compared to 2005 by a substantial 12%. Depreciation decreased significantly following the impairment charge at the end of 2005 and trading profit improved by 42%. Operating profit grew by £100 million, excluding the £1,750 million impairment charge in 2005. The net result in 2006 was a loss of £143 million compared to a net loss in 2005, excluding the 2005 impairment charge, of £221 million.

The results for 2006 and 2005 below have been prepared in accordance with International Financial Reporting Standards (IFRS). The table below and the commentary that follows should be read in conjunction with Eurotunnel's full Combined Accounts. The comparative figures for 2005 presented below have not been recalculated at a constant exchange rate as the euro/sterling combination rate for the income statements for the years ending 31 December 2005 and 31 December 2006 are so similar.

Analysis of result

£ million **Exchange rate €/£**	**2006** **Actual** **1.462**	**2005** **Reported** **1.465**	**2006/2005** **% change**
Shuttle services	318	295	+7%
Railways	240	235	+2%
Transport activities	558	530	+5%
Non-transport activities	10	11	-12%
Revenue	**568**	**541**	**+5%**
Operating expenses	(150)	(144)	+3%
Employee benefit expense	(83)	(98)	-15%
Operating margin	**335**	**299**	**+12%**
Depreciation	(115)	(146)	
Trading profit	**220**	**153**	**+42%**
Impairment	-	(1,750)	
Other operating income and (expenses)	5	(28)	
Operating profit / (loss)	**225**	**(1,625)**	
Net cost of financing and debt service	(334)	(334)	
Other financial charges and income tax expense	(34)	(12)	
Net loss	**(143)**	**(1,971)**	
Operating margin / revenue	*59%*	*55%*	*+4 pts*

Revenue

For the second consecutive year, revenues improved: in 2006 they increased to £568 million, 5% above 2005.

In 2006, Shuttle revenues increased by 7% to £318 million. The Truck cross-Channel market has shown strong growth in 2006, and for the first time since 1998 the cross-Channel Car market has grown, albeit by a modest 1%.

The improvement in Truck Shuttle revenues of 7% was principally due to an increase in average yields, mainly as a result of the full year effect of the re-internalisation of the customers managed by an intermediary until 16 August 2005. The small decline in volumes in 2006 was due to the transfer of traffic to Eurotunnel during the first half of 2005 following the problems encountered at the port of Calais (damaged loading ramp, storms, strikes), and by the decision to reduce volumes from low-yielding small and medium accounts from Italy and Eastern Europe.

Passenger Shuttle revenues increased by 8% between 2005 and 2006, with car revenues increasing by 10% and coach revenues decreasing by 11%.

The increase in car revenues is due to 11% higher average yields in 2006 compared to 2005. Eurotunnel benefited from the positive effect of its dynamic pricing policy in 2006. Volumes reduced slightly in 2006 (-1%), having benefited in the first half of 2005 from the problems at the port of Calais. In 2006 Eurotunnel continued with its policy of capacity reduction.

The reduction in coach revenues in 2006 of 11% is mainly due to the decrease in volumes of 13%, which returned to a level more in line with 2004 (6% above 2004) in the absence of the significant transfer of traffic to Eurtounnel from the port of Calais that occurred in the first half of 2005. Average yields increased by a modest 2%.

Railways revenues, which remained protected by the Minimum Usage Charge (MUC) in the Railway Usage Contract until the end of November 2006, increased by 2% to £240 million for 2006. Revenue relating to the MUC protection amounted to £65 million in 2006 and £72 million in 2005. Excluding the MUC protection, the underlying increase in Railways revenues was 7% in 2006, resulting in part from the 5% increase in Eurostar passenger traffic travelling through the Tunnel. The growth in Eurostar traffic, which had been restrained in 2005 by the terrorist bombings and the Paris riots, began again in 2006. Rail freight tonnage transported through the Tunnel fell by 1% compared to 2005.

Revenue from non-transport activities decreased by £1m compared to 2005, to £10 million. This revenue consisted largely of retail revenues from the facilities available on the two terminals.

Operating margin

For the second consecutive year, operating costs reduced in 2006.

Operating expenses (excluding employee benefit expenses) increased by 3% to £150 million in 2006, compared to £144 million in 2005. The main increases were as follows:

- Energy costs increased by 25%, from £21 million in 2005 to £26 million in 2006, despite reduced consumption, principally as a result of the increase in electricity prices in the UK. In France, a contract was in place up to September 2006 which limited the annual increaseup to this date.
- Maintenance costs increased by 6%, from £22 million in 2005 to £24 million in 2006.
- Local taxes increased by 7%, from £20 million in 2005 to £21 million in 2006, largely as a result of the increase in the French *Taxe Professionnelle*, which was capped at 4% of the added value of the French companies, which in itself also increased.

These increases were partially offset by reductions in the following areas:

- A reduction of 11% in consumables, from £11 million in 2005 to £10 million in 2006.
- Expenditure on consultants reduced by 10% from £13 million in 2005 to £11 million in 2006 following the implementation of the operational restructuring.

Staff benefit expenses reduced by 15%, to £83 million in 2006 from £98 million in 2005. 2006 benefited from almost a full year of reduced staff costs as the voluntary redundancy plan departures were largely concentrated around the end of 2005, continuing into 2006. The average number of employees evolved in a similar fashion, with 2,379 in 2006 compared to 3,017 in 2005.

The combined effects of the increase in revenues and the reduction in operating costs led to an improvement in the operating margin, which increased by 12% from £299 million in 2005 to £335 million in 2006. The ratio of operating margin to revenue improved by 4 points, from 55% in 2005 to 59% in 2006.

Trading profit

The depreciation charge for 2006 decreased by £31 million to £115 million, following the impairment charge in 2005.

Improved revenues and reduced costs and depreciation charges have resulted in an improvement in trading profit of 42% in 2006.

Operating profit

In 2006, no further indication of impairment was identified by Eurotunnel following the charge of £1,750 million made in 2005.

Other operating income and expenses for the year was a net income of £5 million. This included an income of £98 million for the release of advances from the Railways that were received under the Minimum Usage Charge clause of the Railway Usage Contract following the expiry of the guarantee period, and expenses of £89 million relating to external costs associated with financial restructuring and the Safeguard Procedure.

The operating profit for 2006 was £225 million, compared to a profit of £125 million in 2005 excluding the impairment charge.

Net result

Following the decision by the Paris Commercial Court on 2 August to open Safeguard Procedure for the benefit of 17 of Eurotunnel's companies, all interest payments and debt repayments were suspended, and remained suspended at 31 December 2006. Eurotunnel has accrued for all the interest on its debt including that which under the Safeguard Plan is suspended, as well as for related default interest. However, the arrangements set out in the Safeguard Plan relating to the cancellation of interest on notes and default interest, have not been taken into account. In October 2006, the Court-appointed representatives (*Administrateur Judiciaires*) terminated the hedging contracts. Eurotunnel has recorded the end of these transactions and has accounted for the termination indemnity as set out in the Safeguard Plan.

Income from cash and cash equivalents reduced by £2 million, to £4 million in 2006. Interest charges increased from £289 million in 2005 (£243 million of interest on loans and £46 million for the effective rate adjustment) to £318 million in 2006 (£295 million of interest on loans and £23 million for the effective rate adjustment). Since the end of the Stabilisation Period on 31 December 2005, the Stabilisation Facility has carried interest, which in 2006 amounted to £29 million. The increase in interest on loans is also due to an increase in interest rates applicable within the framework of the existing Credit Agreements. Charges associated with the hedging contracts reduced from £51 million in 2005 to £19 million in 2006 as a consequence of the termination of the contracts.

Other financial charges of £34 million were incurred in 2006 compared to £12 million in 2005. This increase is mainly due to the provision for depreciation made to cover risks associated with certain financial contracts within the framework of the financial restructuring.

The income tax expense for 2006 of £178,000 relates to the minimal legal obligations in France and to taxation charges for the marketing subsidiaries created in 2005.

The net result for 2006 was a loss of £143 million, compared to a loss of £221 million in 2005 excluding the impairment charge.

Cash flow

£ million Exchange rate €/£	2006 Actual 1.489	2005 Reported 1.459
Net cash flow from trading	343	279
Other operating cash flows and taxation	(25)	(47)
Net cash inflow from operating activities	**318**	**232**
Net cash outflow from investing activities	(9)	(16)
Net cash outflow from financing activities	(238)	(276)
Increase / (decrease) in cash	**71**	**(60)**

The variation in the euro exchange rate used to combine the accounts had a negative effect on the operating result of £3 million.

The net cash inflow generated by Eurotunnel's operating activities was £318 million in 2006, compared to £232 million in 2005. This improvement is mainly the result of the higher operating margin as described above, together with a reduction of £22 million in other operating cash flows.

As a result of the Safeguard Procedure, the payment of outstanding amounts for goods, services, taxation and social security charges incurred prior to 2 August 2006 was suspended, and they remained suspended at 31 December 2006. This had a favourable effect on the cash flow situation at the end of 2006 of approximately £26 million.

The £7 million reduction in net investment expenditure in 2006 results from the reduction in expenditure on the locomotive upgrade programme, and from the reduced cash generated from the sale of land compared to 2005.

The net cash outflow from financing activities was £238 million in 2006, compared to £276 million in 2005. This decrease is explained by the absence of payments relating to debt service in accordance with the terms of the Safeguard Procedure under which Eurotunnel was placed with effect from 2 August 2006. This had a favourable effect on the cash flow in 2006 of approximately £75 million. In addition, in the period up to 2 August, interest rates used to calculate the interest rose significantly, which increased interest payments for this period.

SUMMARY COMBINED ACCOUNTS

Income statement

(£'000)	At 31 December 2006	At 31 December 2005
Revenue *	567,600	541,464
Operating expenses	347,838	388,775
Trading profit	**219,762**	**152,689**
Impairment of property, plant and equipment	–	1,750,000
Other operating income and (expenses)	4,821	(27,663)
Operating profit / (loss)	**224,583**	**(1,624,974)**
Income from cash and cash equivalents	3,747	5,414
Cost of servicing debt (gross)	336,777	339,587
Net cost of financing and debt service	**333,030**	**334,173**
Other financial income and (charges)	(34,256)	(12,225)
Income tax expense	178	31
Loss for the year	**(142,881)**	**(1,971,403)**
Loss per Unit (in pence) **	(5.6)	(77.4)
Exchange rate €/£	1.462	1.465

** Including £64,821,000 in 2006 relating to the Minimum Usage Charge under the terms of the contract between the rail companies and Eurotunnel (2005: £71,996,000).*

*** There is no difference between the diluted loss per Unit and the loss per Unit.*

Balance sheet

(£'000)	At 31 December 2006	At 31 December 2005
ASSETS		
Total non-current assets	4,978,467	5,194,159
Total current assets	271,284	195,185
Total assets	**5,249,751**	**5,389,344**
EQUITY AND LIABILITIES		
Total equity	(1,315,203)	(1,308,225)
Total non-current liabilities	17,613	6,286,193
Total current liabilities	6,547,341	411,376
Total equity and liabilities	**5,249,751**	**5,389,344**
Exchange rate €/£	1.489	1.459

Notes

1. The summary balance sheet and income statement are extracted from the Annual Report and Accounts of Eurotunnel which were approved by the Joint Board on 6 March 2007.
2. The balance sheet and income statement consist of the combination of the Consolidated Accounts of Eurotunnel P.L.C. together with Eurotunnel SA and its subsidiaries, applying exchange rates as described in the Annual Report and Accounts. The accounts have been prepared in accordance with IFRS accounting principles, under the historical cost convention and on the going concern basis (see note 4 below).
3. Loss per Unit: The basic loss per Unit for the year is calculated using the weighted average number of Units in issue during the year of 2,546,156,268 (2005: 2,546,114,213) and the loss for the year of £142,881,000 (2005: loss of £1,971,403,000). There is no difference between the diluted loss per Unit and the loss per Unit.
4. On the basis of the Safeguard Plan approved at the beginning of 2007 by the Paris Commercial Court and on the implementation of the financial restructuring, Eurotunnel's Combined Accounts were approved by the Joint Board on 6 March 2007 on a going concern basis. The validity of the going concern principle is dependant on the success of the implementation of the restructuring approved by the Paris Commercial Court. This involves, notably: the success of the Tender Offer, the Term Loan to be drawn and any legal action aimed at blocking the Safeguard Plan to fail. In the event that all of the elements of the Safeguard Plan are not put into place, Eurotunnel's ability to trade as a going concern would not be assured. The Combined Accounts would be subject to certain adjustments, the amounts of which cannot be measured at present. They would relate to the impairment of assets to their net realisable value, the recognition of liabilities and the classification of non-current assets and liabilities as current assets and liabilities.
5. The Auditors and *Commissaires aux Comptes* have reported on the 2006 Combined Accounts. Their report contained matters of emphasis relating to going concern, the valuation of property, plant and equipment, the consequences of the implementation of the Safeguard Plan on the Combined Accounts and the non-approval of the 2005 Combined Accounts.

IMPORTANT EVENTS AND DETAILED FINANCIAL AND LEGAL ASPECTS OF THE SAFEGUARD PLAN

Important events

Eurotunnel's 2006 revenues totalled £568 million, a 5% increase on the previous year. This increase in revenues occurred in the context where the company no longer seeks volumes as a priority and where the number of trucks and cars travelling onboard the shuttles was stable compared to the previous year.

Revenue from the operation of the shuttles which link Folkestone in the UK to Coquelles in France carrying trucks or tourist vehicles is the principal driver behind this growth; their revenue growing by 7% to £318 million in 2006, compared to £295 million in 2005:

- The Passenger Shuttle service accounted for a significant portion of this growth, with the new pricing policy proving well suited to developments in this market. The policy is helping to win and retain customers in the most valuable segments.
- Truck transportation remains Eurotunnel's spearhead, and continued to generate the majority of Shuttle service revenue. Truck revenues increased by 7%, due in particular to the decision to stop using intermediaries to market the service.

Revenues from the Railways are slightly higher (+2%) at £240 million. They include payments due under the Minimum Usage Charge (MUC), £65 million for 11 months of 2006. The ending of this arrangement on 30 November 2006 has deprived Eurotunnel of £6 million of revenue compared with 2005.

Eurotunnel's financial position

On 13 July 2006, the Joint Board decided to ask the Paris Commercial Court to place the company under its protection as part of a Safeguard Procedure (defined by French law 2005-845 of 26 July 2005). The Paris Commercial Court opened the Safeguard Procedure for 17 Eurotunnel companies on 2 August 2006.

In accordance with applicable laws, the Safeguard Procedure ended the alert procedure initiated by the *Commissaires aux Comptes* on 6 February 2006.

On 2 August 2006, Calyon and HSBC Bank plc, as the Agent Bank under the Credit Agreements, served notice of a default event relating to the Senior Debt, Fourth Tranche Debt, Tier 1A Debt, Tier 1 Debt, Tier 2 Debt and Tier 3 Debt, although they did not demand accelerated payment of the corresponding debts.

On 26 October 2006, the Joint Board approved, in accordance with the Safeguard Law, the terms of a Proposed Safeguard Plan devised by the company with the support of court-appointed judicial administrators and creditor representatives. The main aspects of this plan, the aim of which is to reduce debt by 54%, are as follows:

- The creation of a new parent company, Groupe Eurotunnel SA (GET SA), which will make a Tender Offer for Eurotunnel Units.
- The restructuring of the current £6.3 billion debt through the refinancing or restructuring of the various debt components. This will involve a new loan of £2.84 billion from an international banking consortium and the issue by GET SA of £1.275 billion of notes redeemable in shares (NRS). These NRS are redeemable in GET SA shares for a maximum term of three years and one month. 61.7% of these NRS are redeemable early in cash by the issuer.
- Current holders of Eurotunnel Units who tender their Units to the Tender Offer will, if they tender all their Units to the Offer and depending on how many NRS are redeemed in cash, receive at least 13% of GET SA's capital. They will be able to subscribe NRS up to a maximum nominal amount of £60 million and will receive share warrants exercisable at nominal value as part of the Tender Offer. They will also benefit from certain travel privileges.

On 18 December 2006, Eurotunnel's Joint Board approved the financing proposals for the Safeguard Plan drawn up by a consortium made up of Goldman Sachs and Deutsche Bank, which has since been joined by Citigroup. These proposals allow the Proposed Safeguard Plan to be financed in full through:

- a long-term loan of £1.5 billion and €1.965 billion, equal to a total of £2.84 billion, in the form of a traditional bank loan with a term of between 35 and 43 years depending on the tranche;
- the underwriting of the sterling- and euro-denominated NRS allotted to Tier 3 debt-holders in an amount equivalent to £965 million, allowing these debt-holders to receive cash instead of NRS if they so desire.

These proposals leave additional debt capacity of £225 million, allowing certain NRS to be redeemed in cash if required.

In its judgements dated 15 January 2007, the Paris Commercial Court approved the Proposed Safeguard Plan presented by Eurotunnel. Two Commissioners for the Execution of the Plan were appointed for a maximum term of 37 months.

More detailed financial and legal information about the Safeguard Plan is provided at the end of this note.

Safeguard Procedure: consequences on the financial statements and forecast cash flow in 2007

Impact on debt

The execution of the Safeguard Plan will lead to the restructuring of the current debt. As a result, medium- and long-term debt (non-current financial liabilities) has been reclassified as short-term debt (current financial liabilities).

Cancellation of interest-rate hedging contracts

In October 2006, the Court-appointed representatives (*Administrateur Judiciaires*) terminated the hedging contracts. Eurotunnel recorded the unwinding of these transactions and has accounted for amounts due to the parties to these contracts under the Safeguard Plan.

Other operating expenses

Costs of £189 million have been accounted for relating to the Safeguard Procedure and to the financial restructuring.

Impact on the cash position in 2006

As part of the Safeguard Procedure, the payment of £26 million of trade, tax and employment-related liabilities relating to the period prior to 2 August 2006 has been suspended. £75 million of debt service payments have also been suspended.

Forecast cash flow in 2007

Based on forecasts made in late January 2007, the cash position is sufficient to cover expenses arising from the complete and definitive implementation of the financial restructuring within the specified timeframe. The financial restructuring will also give Eurotunnel access to an additional €75 million facility to deal with contingencies.

Going concern

Based on the Safeguard Plan and the implementation of the related financial restructuring, Eurotunnel's Combined Accounts were approved by the Joint Board on 6 March 2007 on a going concern basis.

The company's status as a going concern depends directly on the success of the restructuring approved by the Paris Commercial Court. This requires: the Tender Offer to be a success, the Term Loan to be drawn and any legal action aimed at blocking the Safeguard Plan to fail.

- The Tender Offer requires a minimum acceptance rate of 60%. If the proportion of Units tendered to the Tender Offer is lower than 60%, and provided that GET SA has not abandoned this threshold in accordance with applicable regulations, this Tender Offer acceptance condition would not be met.
- The drawing of the Term Loan, as with any credit agreement of this type, is subject to several conditions that must be met by 30 June 2007, some of which may fall outside of Eurotunnel's control. If these conditions are not met and if the lenders do not waive them, Eurotunnel would be unable to carry out the cash redemptions and payments specified by the Safeguard Plan.
- Eurotunnel has been, is currently and may in future be involved in certain administrative or legal procedures, particularly in France and the UK. Some of these procedures, if successful, could delay or threaten the implementation of the Safeguard Plan. Some note holders have lodged various legal actions challenging the decision of the Paris Commercial Court of 15 January 2007 to approve the Safeguard Plan. These actions relate principally to the manner in which the meetings were convened and conducted under the Safeguard Procedure. At this stage, these actions would not prevent the Safeguard Plan from proceeding.

Some aspects of the Safeguard Plan may have to be adjusted in order to be implemented effectively. The type and extent of these adjustments cannot be gauged at the moment. Such adjustments, if they became necessary, would fall under the regulatory framework governing the execution of the Safeguard Plan.

In the event that all of the elements of the Safeguard Plan are not put in place, Eurotunnel’s ability to trade as a going concern would not be assured. The Combined Accounts would be subject to certain adjustments, the amounts of which cannot be measured at present. They would relate to the impairment of assets to their net realisable value, the recognition of liabilities and the classification of non-current assets and liabilities as current assets and liabilities. The asset value on liquidation has been estimated by the valuer/auctioneer appointed by the Safeguard Procedure at £890 million.

Negative equity

The recognition of impairment charges at 31 December 2005 caused Eurotunnel's main companies (EPLC, ESA, FM and CTG) to have negative total equity.

Under the Safeguard Plan, GET SA will reconstitute these companies' equity through the capitalisation of debt.

Litigation

Eurotunnel and the Railways (SNCF and British Railways Board) reached an agreement on 24 July 2006 ending the dispute that began in 2001 relating to the calculation of their contribution to the Channel Tunnel's operating costs.

This dispute was referred to a court of arbitration, which had issued a ruling for the period from 1997 to 2002. An initial partial agreement was reached in December 2005 between Eurotunnel and the Railways covering the period from 1999 to 2004.

Under the 24 July 2006 agreement, Eurotunnel agreed to reduce the Railways' contribution for the non-time barred years, and for 2003 and 2004, by an annual amount of £3 million, making a total of £15 million. It also agreed to set up a simple and fair system for sharing operating expenses from 2005 onwards.

The new agreement is definitive and brings to an end the various disputes concerning operating costs. It confirms the agreement relating to the years up to 2004, settles the 2005 financial year and sets out a lump sum mechanism for the majority of operating costs for each of the years from 2006 to 2014 inclusive. Consultation mechanisms were also put in place to determine the Railways' contribution to renewal investments that concern them.

Detailed financial and legal aspects of the Safeguard Plan

Under the Safeguard Plan:

- A new group structure will be set up, including the creation of GET SA, which will be central to the reorganisation. GET SA's ordinary shares will be listed for trading on Eurolist by Euronext™, included on the Official List of the United Kingdom Listing Authority and listed for trading on the London Stock Exchange.
- GET SA will make a Tender Offer allowing holders of Eurotunnel Units to receive GET SA ordinary shares and GET SA warrants in exchange for these Units.
- FM and EFL are the entities that contracted Eurotunnel's senior debt. They will take out a long-term loan that will enable, taking into account the cash flow available: (a) the refinancing of all current debt up to Tier 2; (b) to make cash payments to holders of Tier 3 debt and note-holders as set out in the Safeguard Plan; (c) to pay accrued interest on the current debt in accordance with the terms and limits set out in the Safeguard Plan; and (d) Groupe Eurotunnel to access a cash facility of more than €100 million to cover its operational requirements, including restructuring costs.
- A UK subsidiary of GET SA will issue notes redeemable in shares (NRS) for a total nominal amount of £571,042,142 and €1,032,248,700. The main characteristics of these NRS are as follows:
    - They will be automatically redeemed in GET SA ordinary shares between the 13th and the 37th month following their issue.
    - They will be divided into two series, i.e. NRS I and NRS II. NRS I notes will not be redeemable in cash, whereas the issuer may elect to redeem NRS II notes in cash.
    - The redemption price of the NRS that the issuer elects to redeem in cash will be 140% of nominal value.
    - NRS II notes redeemable in cash will carry interest at 6% per year, while NRS I notes not redeemable in cash will pay interest at 3% per year.
    - Holders of Eurotunnel Units who tender their Units to the Tender Offer will be able to subscribe for NRS up to a maximum nominal amount of £60 million.
    - Under the Safeguard Plan, NRS will be allotted to:
        - Holders of Tier 3 debt, up to £430,523,751 and €783,729,300, in return for assigning all of their Tier 3 debt claims to the issuer of the NRS;
        - Note-holders, up to £104,827,303 and €183,547,000, in return for assigning all of their note claims to the issuer of the NRS; and
        - Tier 3 Cash Option Arrangers, for an amount of £35,691,088 and €64,972,400, pursuant to their undertaking to arrange the Tier 3 cash option.
    - The NRS will be listed for trading on Eurolist by Euronext™.
- As holders of capital securities in GET SA, Tier 3 debt-holders and note-holders who own NRS will be granted certain specific corporate governance rights (until all of NRS are redeemed in GET SA ordinary shares) through a preferred share issued by GET SA. This preferred share will be owned by a UK-registered company, owned in turn by Tier 3 debt-holders and note-holders who own NRS.
- Monetisation arrangements will be put in place for NRS, allowing Tier 3 debt holders to exercise the Tier 3 cash option instead of receiving NRS, and allowing other Tier 3 debt-holders and note-holders to finance the corresponding cash payment by subscribing in cash the NRS to which the Tier 3 debt-holders exercising the Tier 3 cash option were entitled. Four Tier 3 debt-holders representing €397,146,552.43 and £304,606,625.20 of the Tier 3 debt have elected to exercise the cash option. The NRS that became available as a result have been fully subscribed by other Tier 3 debt-holders and by a large proportion of note-holders.

- GET SA will issue GET SA warrants exercisable in the event of additional value crystallising in Groupe Eurotunnel. The warrants will be listed on Eurolist by Euronext™. 55% of them will be allotted to Unit-holders tendering their Units to the Tender Offer and 45% to note-holders.
- ESA and EPLC's capital structure will be reorganised as soon as the Tender Offer closes. This will involve the UK subsidiary of GET SA that issues the NRS capitalising some or all of the Tier 3 assigned to it as part of the Safeguard Plan. This capitalisation of debt will take the form of ESA and EPLC capital increases reserved for this UK subsidiary of GET SA. In addition, similar debt capitalisation transactions will be carried out for FM, CTG and EFL.

The Combined Accounts for 2005, which were approved by the Joint Board on 6 March 2007 and were included in the opening balance sheet at 1 January 2006, will be submitted to shareholders who will be called upon to approve the 2005 and 2006 accounts. The loss for 2005 is included in the retained earnings at 1 January 2006.

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FINANCIAL ANALYSIS
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SUMMARY ACCOUNTS

2005

FINANCIAL ANALYSIS

Revenues from the Shuttle business increased by 4% compared to 2004 despite continued intense competition in the cross-Channel market. Operating expenses and employee benefit expenses decreased by 4% and depreciation decreased by £13 million. The resulting trading profit improved by 19%. An impairment charge of £1,750 million was made in 2005 and other operating expenses reduced significantly compared to 2004, leading to an operating loss of £1,625 million in 2005 compared to a loss of £255 million in 2004. The net loss in 2005 was £1,971 million, compared to the loss of £587 million in 2004. Excluding the 2005 and 2004 impairment charges (£1,750 million and £336 million respectively), the net result improved by £30 million.

With effect from 1 January 2005, Eurotunnel is required to apply International Financial Reporting Standards (IFRS) when preparing its accounts. The accounting principles now being applied by Eurotunnel are described in note 2, and the impact of the new accounting principles are described in note 23, to the 2005 Combined Accounts.

The comparative figures for 2004 in the table below have been restated to reflect the adoption of IFRS, but have not been recalculated at a constant exchange rate as the euro/sterling combination rate for the income statements for the years ending 31 December 2005 and 31 December 2004 are so similar. The tables and commentary below should be read in conjunction with the Eurotunnel's full Combined Accounts.

Analysis of result

£ million Exchange rate €/£	2005 Actual 1.465	2004 Restated[1] 1.466	2005/2004 % change
Shuttle services	295	285	+4%
Railways	235	234	-
Transport activities	530	519	+2%
Non-transport activities	11	19	-41%
Revenue	**541**	**538**	**+1%**
Operating expenses	(144)	(146)	-1%
Employee benefit expense	(98)	(105)	-7%
Operating margin	**299**	**287**	**+4%**
Depreciation	(146)	(159)	
Trading profit	**153**	**128**	**+19%**
Impairment	(1,750)	(336)	
Other operating expenses	(28)	(47)	
Operating loss	**(1,625)**	**(255)**	
Net cost of financing and debt service	(334)	(336)	
Other financial (charges) and income and income tax expense	(12)	4	
Net loss	**(1,971)**	**(587)**	
Operating margin / revenue	*55%*	*53%*	*+2 pts*

[1] *Prepared under IFRS as described in note 2 of the 2005 Combined Accounts.*

Revenue

Shuttle services revenues improved by 4% to £295 million compared to 2004.

The 10% increase in Truck shuttle revenues results principally from increased average yields following Eurotunnel's re-establishment of direct control over the sales and pricing policy for the small and medium accounts with effect from 16 August 2005, and to the positive effect of Eurotunnel's new strategy for its truck customers. This increase in prices has been accompanied by a 2% increase in volumes which was in part due to the problems at the port of Calais during the first half of 2005 (collapsed loading ramp, storms, strikes), partially offset by the decision to reduce volumes from low-yielding small and medium accounts from Italy and Eastern Europe.

In total, Passenger shuttle revenues reduced by 5%: car revenues fell by 6% whilst coach revenues increased by 15%.

The decrease in car revenues is as a result of the combination of the 3% decrease in volumes in a context of significantly reduced capacity from September 2005, and 4% lower average yields due to market price competition.

In contrast, coach revenues increased by 15% as a result of the 22% increase in volumes which was mainly due to a significant transfer of coaches to Eurotunnel during the disruptions at the port of Calais at the beginning of 2005 and which continued after these problems had been resolved, and, to a lesser extent, to the strong growth in Eastern European traffic. The effect of this increase in volumes was partially offset by a decrease in average yields of 6%.

Railways revenue remained stable at £235 million (£234 million in 2004) and remains protected until the end of November 2006 by payments under the provisions of the Minimum Usage Charge (MUC) in the Railway Usage Contract which in 2005 amounted to £72 million. The number of Eurostar passengers travelling through the Tunnel increased by 2%. Volume growth was restrained by the terrorist bombings in London in July 2005 and the riots in France in October 2005. Rail freight volumes carried through the Tunnel fell by 16%.

Revenues from non-transport activities amounted to £11 million, down 41% compared to 2004 (£19 million) mainly as a result of a reduction in of land revenues in 2005.

Total revenue in 2005 was £541 million, an improvement of £3 million compared to 2004.

Operating margin

Operating expenses (excluding employee benefit expenses) reduced by 1% to £144 million in 2005, compared to £146 million in 2004. The main increases were as follows:

- Consumables increased by 50% from £8 million in 2004 to £11 million in 2005, largely due to increased usage as a result of the rail replacement programme which began in 2005.
- The cost of energy increased by 17% from £18 million in 2004 to £21 million in 2005, despite the decrease in traffic. This is mainly explained by higher UK electricity prices, which increased significantly in October 2004, and which increased further in October 2005. In France, electricity prices were covered by a contract up until September 2006, which limited the annual increase up until this date.
- Communication and consultancy costs increased by 17% from £17 million to £20 million, following an increased usage of external consultants during the operational restructuring, and higher costs for the annual general meetings.

These increases were partially offset by decreases in the following areas:

- Maintenance costs reduced by 13% from £26 million in 2004 to £22 million in 2005.
- Insurance costs reduced by 16% from £11 million to £9 million as a result of lower insurance premiums.
- The cost of temporary staff reduced by 86% from £3 million in 2004, to under £0.5 million in 2005 as a result of the operational restructuring and the reduction in capacity.

Staff benefit expenses reduced by 7% to £98 million in 2005, compared to £105 million in 2004. This reduction was proportionate to the reduction in average staff numbers, which reduced from 3,269 in 2004 to 3,017 for 2005. As part of the operational restructuring, the number of staff employed by Eurotunnel reduced during 2005, particularly at the end of the year, as a result of the voluntary redundancy plan.

The combined effects of the increase in revenue and the reduction in operating expenses have led to an improved operating margin, which increased by 4% to £299 million for 2005 (2004: £287 million). The ratio of operating margin to revenue improved by 2 points, from 53% in 2004 to 55% in 2005.

Trading profit

Depreciation charges reduced by 8% in 2005 as a result of the impairment charge made in 2004.

Improved revenues and decreased operating expenses and depreciation charges have generated the increase in trading profit of 19% in 2005.

Operating result

At 31 December 2005, Eurotunnel carried out a valuation of the value in use of its assets, corresponding to an implicit discount rate of 8.4% which led to an impairment charge of £1,750 million. The impairment charge at 31 December 2004 was £336 million, and corresponded to an implicit discount rate of 7.2%. Impairment charges have no impact on Eurotunnel's liquidity position.

In 2005, other operating expenses totalled £28 million relating principally to external costs associated with financial restructuring and to costs relating to the termination of certain contracts. A further provision of £12 million was made in 2005 to cover the costs of the operational restructuring.

The operating result in 2005 was a loss of £1,625 million, compared to a loss of £255 million in 2004.

Net result

The cost of servicing the debt remained stable (£289 million in 2005 compared to £288 million in 2004), and charges relating to hedging instruments went from £54 million in 2004 to £51 million in 2005.

Other financial charges and income was a net charge of £12 million in 2005 compared to a net income of £4 million in 2004. This variance is mainly due to a provision for depreciation to cover risks associated with certain financial contracts within the framework of the financial restructuring.

The only income tax expense incurred by Eurotunnel relates to the minimal legal obligations in France.

The net result for 2005 was a loss of £1,971 million compared to the loss in 2004 of £587 million. Excluding the impairment charges of £1,750 million in 2005 and £336 million in 2004, the net result improved by £30 million.

Cash flow

£ million Exchange rate €/£	2005 Actual 1.459	2004 Restated [1] 1.418
Net cash inflow from trading	279	293
Net cash outflow from other operating activities and taxation	(47)	(14)
Net cash inflow from operating activities	232	279
Net cash outflow from investing activities	(16)	(28)
Net cash outflow from financing activities	(276)	(282)
Decrease in cash	**(60)**	**(31)**

[1] *Prepared under IFRS as described in note 2 of the 2005 Combined Accounts.*

The variation in the euro exchange rate used to combine the accounts had a negative effect on the operating result of £4 million.

The net cash inflow from trading was £279 million in 2005, down £14 million compared to 2004. Eurotunnel made a payment of £5 million in 2005 to make good part of the deficits in Eurotunnel's UK pension funds. The increase in other operating cash outflows compared to 2004 is due to expenditure during 2005 on the operational restructuring.

Following the decrease in cash inflow from trading of £14 million and the increase of £33 million in other operating cash outflows, the net cash inflow from operating activities decreased by £47 million between 2004 and 2005.

The net cash outflow from investing activities was £16 million in 2005 compared to £28 million in 2004. This decrease was due to a reduction in capital expenditure of £6 million and an increase in 2005 in cash received from land sales.

The net cash outflow from financing activities was £276 million in 2005, a decrease of £6 million compared to 2004. Interest paid on bank debt reduced by £18 million as a result of a decrease in payments relating to the Junior Debt. The net interest paid on hedging contracts went from £36 million in 2004 to £48 million in 2005. During 2005, the average interest rates for part of the variable rate sterling-denominated debt went below the floor rates and therefore generated additional charges.

SUMMARY COMBINED ACCOUNTS

Income statement

(£'000)	**At 31 December 2005**	At 31 December 2004
Revenue	541,464	538,123
Operating expenses	388,775	410,277
Trading profit	**152,689**	**127,846**
Impairment of property, plant and equipment	1,750,000	335,810
Other operating expenses	27,663	47,518
Operating loss	**(1,624,974)**	**(255,482)**
Income from cash and cash equivalents	5,414	5,359
Cost of servicing debt (gross)	339,587	341,620
Net cost of financing and debt service	**334,173**	**336,261**
Other financial (charges) and income	(12,225)	4,343
Income tax expense	31	23
Loss for the year	**(1,971,403)**	**(587,423)**
Loss per Unit (in pence) *	(77,4)	(23.1)
Exchange rate €/£	1.465	1.466

** There is no difference between the diluted loss per Unit and the loss per Unit.*

Balance sheet

(£'000)	**At 31 December 2005**	At 31 December 2004
ASSETS		
Total non-current assets	5,194,159	7,119,590
Total current assets	195,185	268,375
Total assets	**5,389,344**	**7,387,965**
EQUITY AND LIABILITIES		
Total equity	(1,308,225)	541,695
Total non-current liabilities	6,286,193	6,452,741
Total current liabilities	411,376	393,529
Total equity and liabilities	**5,389,344**	**7,387,965**
Exchange rate €/£	1.459	1.418

Notes

1. The summary balance sheet and income statement are extracted from the Annual Report and Accounts of Eurotunnel which were approved by the Joint Board on 6 March 2007.

2. The balance sheet and income statement consist of the combination of the Consolidated Accounts of Eurotunnel P.L.C. together with Eurotunnel SA and its subsidiaries, applying exchange rates as described in the Annual Report and Accounts. The accounts were been prepared for the first time in accordance with IFRS accounting principles, under the historical cost convention and on the going concern basis (see note 4 below).

3. Loss per Unit: The basic loss per Unit for the year is calculated using the weighted average number of Units in issue during the year of 2,546,114,213 (2004: 2,546,110,015) and the loss for the year of £1,971,403,000 (2004: loss of £587,423,000). There is no difference between the diluted loss per Unit and the loss per Unit.

4. On the basis of the Safeguard Plan approved at the beginning of 2007 by the Paris Commercial Court and on the implementation of the financial restructuring, Eurotunnel's Combined Accounts were approved by the Joint Board on 6 March 2007 on a going concern basis. The validity of the going concern principle is dependant on the success of the implementation of the restructuring approved by the Paris Commercial Court. This involves, notably: the success of the Tender Offer, the Term Loan to be drawn and any legal action aimed at blocking the Safeguard Plan to fail. In the event that all of the elements of the Safeguard Plan are not put into place, Eurotunnel's ability to trade as a going concern would not be assured. The Combined Accounts would be subject to certain adjustments, the amounts of which cannot be measured at present. They would relate to the impairment of assets to their net realisable value, the recognition of liabilities and the classification of non-current assets and liabilities as current assets and liabilities.

5. The Auditors and *Commissaires aux Comptes* have reported on the 2005 Combined Accounts. Their report contained matters of emphasis relating to going concern and the valuation of property, plant and equipment**.**

IMPORTANT EVENTS

The new operational model

In 2005, Eurotunnel carried out a major operational restructuring.

The new Truck Shuttle strategy consists of giving priority to contract clients who provide a daily usage estimate. This allows Eurotunnel to enhance client satisfaction by adjusting capacity in line with demand. The reduction in capacity improved Truck Shuttle load factors. In addition, Eurotunnel has brought commercial business previously subcontracted to Transferry back in-house, enabling it to improve service quality for all clients throughout Europe. The partnership agreements between Eurotunnel and its agent for exploiting the EurotunnelPlus brand and services ended on 16 August 2005.

In operational terms, the reduction in transport capacity led to a fall of around 15% in the number of Truck Shuttle departures, without affecting service quality. The load factor improved substantially, from 59% in 2004 to 71% in 2005.

For the Passenger Shuttle service, a new pricing policy was introduced for the car business in June 2005. The new policy is to offer a more transparent reservation service, introducing journeys based on single fares, standard journeys not based on the length of stay, Flexiplus journeys that can be changed at no additional cost, dedicated payment booths and priority boarding. Passenger Shuttle capacity was substantially reduced in the second half of 2005, by around 25% compared to the second half of 2004. This improved the load factor and lowered costs.

In 2004, a provision of £36 million was made for the employee-related consequences of the operational restructuring and for the early cancellation of certain outsourcing contracts. An additional £12 million provision was booked in 2005 to cover the total number of staff departures following the negotiations with UK and French staff representatives which resulted in agreements based on negotiated voluntary departures. The voluntary departures continued in 2006.

Eurotunnel's financial position

On 13 July 2006, the Joint Board decided to ask the Paris Commercial Court to place the company under its protection as part of a Safeguard Procedure (defined by French law 2005-845 of 26 July 2005). The Paris Commercial Court opened the Safeguard Procedure for 17 Eurotunnel companies on 2 August 2006.

In accordance with applicable laws, the Safeguard Procedure ended the alert procedure initiated by the *Commissaires aux Comptes* on 6 February 2006.

On 2 August 2006, Calyon and HSBC Bank plc, as the Agent Bank under the Credit Agreements, served notice of a default event relating to the Senior Debt, Fourth Tranche Debt, Tier 1A Debt, Tier 1 Debt, Tier 2 Debt and Tier 3 Debt, although they did not demand accelerated payment of the corresponding debts.

On 26 October 2006, the Joint Board approved, in accordance with the Safeguard Law, the terms of a Proposed Safeguard Plan devised by the company with the support of court-appointed judicial administrators and creditor representatives. The main aspects of this plan, the aim of which is to reduce debt by 54%, are as follows:

- The creation of a new parent company, Groupe Eurotunnel SA (GET SA), which will make a Tender Offer for Eurotunnel Units.
- The restructuring of the current £6.3 billion debt (at 31 December 2006) through the refinancing or restructuring of the various debt components. This will involve a new loan of £2.84 billion from an international banking consortium and the issue by GET SA of £1.275 billion of notes redeemable in shares (NRS). These NRS are redeemable in GET SA shares for a maximum term of three years and one month. 61.7% of these NRS are redeemable early in cash by the issuer.
- Current holders of Eurotunnel Units who tender their Units to the Tender Offer will, if they tender all their Units to the Offer and depending on how many NRS are redeemed in cash, receive at least 13% of GET SA's capital. They will be able to subscribe for NRS up to a maximum nominal amount of £60 million and will receive share warrants exercisable at nominal value as part of the Tender Offer. They will also benefit from certain travel privileges.

On 18 December 2006, Eurotunnel's Joint Board approved the financing proposals for the Safeguard Plan drawn up by a consortium made up of Goldman Sachs and Deutsche Bank, which has since been joined by Citigroup. These proposals allow the Proposed Safeguard Plan to be financed in full through:

- a long-term loan of £1.5 billion and €1.965 billion, equal to a total of £2.84 billion, in the form of a traditional bank loan with a term of between 35 and 43 years depending on the tranche;
- the underwriting of the sterling- and euro-denominated NRS allotted to Tier 3 debt-holders in an amount equivalent to £965 million, allowing these debt-holders to receive cash instead of NRS if they so desire.

These proposals leave additional debt capacity of £225 million, allowing certain NRS to be redeemed in cash if required.

In its judgements dated 15 January 2007, the Paris Commercial Court approved the Proposed Safeguard Plan presented by Eurotunnel. Two Commissioners for the Execution of the Plan were appointed for a maximum term of 37 months.

Going concern

Taking into account the uncertainties relating to Eurotunnel's ability to meet its commitments within a timeframe compatible with its financial position, the *Commissaires aux Comptes* initiated a warning procedure on 6 February 2006 relating to ESA and FM, in accordance with French legislation. The *Commissaires aux Comptes'* special warning report is presented in the 2005 Annual Accounts.

The Joint Board was unable to gauge the company's status as a going concern, and was therefore unable to finalise the 2005 financial statements within the legal deadline.

Eurotunnel asked the Paris Commercial Court for, and obtained, authorisation to delay convening the shareholders' meeting to approve the financial statements until 31 December 2006. This deadline was later extended until 31 March 2007.

Based on the Safeguard Plan approved by the Paris Commercial Court in early 2007 and the implementation of the financial restructuring, Eurotunnel's Combined Accounts were approved by the Joint Board on 6 March 2007 on a going concern basis.

The company's status as a going concern depends directly on the success of the restructuring approved by the Paris Commercial Court. This requires the Tender Offer to be a success, the Term Loan to be drawn and any legal action aimed at blocking the Safeguard Plan to fail.

- The Tender Offer requires a minimum acceptance rate of 60%. If the proportion of Units tendered to the Tender Offer is lower than 60%, and provided that GET SA has not abandoned this threshold in accordance with applicable regulations, this Tender Offer acceptance condition would not be met.
- The drawing of the Term Loan, as with any credit agreement of this type, is subject to several conditions that must be met by 30 June 2007, some of which may fall outside of Eurotunnel's control. If these conditions are not met and if the lenders do not waive them, Eurotunnel would be unable to carry out the cash redemptions and payments specified by the Safeguard Plan.
- Eurotunnel has been, is currently and may in future be involved in certain administrative or legal procedures, particularly in France and the UK. Some of these procedures, if successful, could delay or threaten the implementation of the Safeguard Plan. Some note holders have lodged various legal actions challenging the decision of the Paris Commercial Court of 15 January 2007 to approve the Safeguard Plan. These actions relate principally to the manner in which the meetings were convened and conducted under the Safeguard Procedure. At this stage, these actions would not prevent the Safeguard Plan from proceeding.

Some aspects of the Safeguard Plan may have to be adjusted in order to be implemented effectively. The type and extent of these adjustments cannot be gauged at the moment. Such adjustments, if they became necessary, would fall under the regulatory framework governing the execution of the Safeguard Plan.

In the event that all of the elements of the Safeguard Plan are not put in place, Eurotunnel’s ability to trade as a going concern would not be assured. The Combined Accounts would be subject to certain adjustments, the amounts of which cannot be measured at present. They would relate to the impairment of assets to their net realisable value, the recognition of liabilities and the classification of non-current assets and liabilities as current assets and liabilities. The asset value on liquidation has been estimated by the valuer/auctioneer appointed by the Safeguard Procedure at £890 million.

2005 financial statements

Asset value

Eurotunnel's assets are valued in accordance with IAS36, which defines an asset's recoverable value as the higher of fair value and value in use. Value in use is calculated by discounting projected future operating cash flows (after capital expenditure) and applying Adjusted Present Value methodology. This method takes into account assumptions regarding future cash flows and debt levels, as well as market interest rates during the Concession.

Applying IAS36 at 31 December 2004 gave assets a value in use that was £336 million lower than their net carrying value, leading to an impairment charge on property, plant and equipment for the same amount.

When the calculation at 31 December 2004 was made, there was uncertainty about the company's status as a going concern. It was made on the basis of cash flows based on operational and financial contracts in place at the time, and was made before the refinancing plan had been developed. In making its calculations, Eurotunnel assumed a level of debt £1.3 billion lower than that stated at the balance sheet date, with a corresponding increase in capital.

The calculation of value in use at 31 December 2005 took into account the Safeguard Plan, and used an implicit discount rate of 8.4%, as opposed to 7.2% in 2004. This led to a £1,750 million impairment charge.

The increase in the implicit discount rate was due to the new operational model's impact on specific asset risks (asset beta of 0.57 compared to 0.43 in 2004), and the new financing structure based on the Safeguard Plan, involving a new loan of £2.84 billion and the issue of NRS for an amount of £1.275 billion.

Relatively minor changes in assumptions would lead to material changes in the value in use. For example, a 0.1-point change in the implied discount rate would correspond to a change in the value in use of assets of approximately £92 million, and a 0.5-point change would change their value by approximately £489 million.

Financial liabilities

Financial liabilities are presented on the balance sheet in accordance with their contractual maturity. The execution of the Safeguard Plan in 2007 will substantially change the amounts, characteristics and maturity of this debt.

Negative equity

The recognition of impairment charges as described above caused Eurotunnel's main companies (EPLC, ESA, FM and CTG) to have negative total equity.

Under the Safeguard Plan, GET SA will reconstitute these companies' equity through the capitalisation of debt.

Litigations

Under the Railway Usage Contract dated 29 July 1987 between the Railways (SNCF and BRB) and Eurotunnel, the Railways are required to pay a contribution to the operating costs of Eurotunnel in each year. On 21 November 2001, the Railways initiated arbitration proceedings under the auspices of the International Chamber of Commerce, aimed at reducing the amount of this contribution, firstly for the years 1997 and 1998, and secondly for the years 1999 to 2002. The amount claimed by the Railways for all of these years together is estimated to be a maximum of £100 million.

In a first award made on 26 April 2002, the Arbitration Tribunal ordered the Railways to pay to Eurotunnel the full amount of the provisional contribution to its 2002 operating costs.

The Arbitration Tribunal, in a second partial award made on 30 January 2003, rejected the Railways' claim regarding the operating costs contribution for 1997 and 1998 on the basis that it was time barred. The Arbitration Tribunal, in a third partial award given on 4 May 2005:

- rejected the Railways' claim regarding the operating costs contribution for 2000 on the basis that it was time barred;
- rejected the Railways' claims on allegations of breach of contract by Eurotunnel;
- set out a number of clarifications on the interpretation of Usage Contract provisions regarding cost allocations, and on the practice of the parties in this respect.

The determination of the final amount of the operating costs contribution for non-time barred years will be carried out within the scope of the expert's mission as set out in the Usage Contract. In light of this award, Eurotunnel and the Railways met together at the end of 2005 to seek an amicable resolution to the dispute. An agreement was signed on 23 December 2005, by which Eurotunnel accepted a reduction of the Railways' contribution for the non-time barred years as well as for 2003 and 2004 for a lump sum of £3 million for each year (£15 million in total). This settlement agreement was reached on the condition that a definitive agreement would be reached before 31 May 2006 on a simplified and reasonable system of allocation of operating costs for future years with effect from 2005 inclusive. Should such an agreement not be reached by this date, the Railways would be obliged to repay the advance paid by Eurotunnel under the settlement agreement, and the expert's mission, which has been suspended until 31 May 2006, would re-commence. The Arbitration Tribunal, which remains constituted, would render a final award upon completion of the expertise, and would pronounce any potential condemnations against Eurotunnel and/or SNCF and BRB. The impact of the settlement agreement has been taken into account in 2005.

In 2006, Eurotunnel and the Railways came to a definitive agreement, on the basis of the above conditions.

Eurotunnel has reached a settlement agreement in the contractual dispute that started in 2004 between Eurotunnel and its agent Transferry. The impact of this settlement has been taken into account in 2005.