Eurotunnel's Business Review and Summary Accounts 2006 2005

The approval, on 15 January 2007, by the Paris Commercial Court of the Safeguard Plan prepared and presented by your Board, has enabled Eurotunnel to avoid bankruptcy.
The figures speak for themselves: for the year ended 2005, your Board recorded an impairment of assets of more than £1.7 billion, leading to negative equity of more than £1.3 billion for Eurotunnel.
The "Commissaires aux Comptes" initiated a warning procedure in February 2006 which ended on entry into the Safeguard Procedure on 2 August.
On the basis of the Safeguard Plan approved by the Paris Commercial Court, the Auditors and "Commissaires aux Comptes" certified the 2005 and 2006 accounts with matters of emphasis, the going concern being dependent upon the full implementation of the Plan and, in particular, on the successful completion of the Exchange Tender Offer envisaged.
As far as operations are concerned, the heavy and difficult restructuring measures taken in the second half of 2005 are now bearing fruit, ahead of schedule, as you can see for yourself:
The 2006 operating results are excellent: revenue has grown by 5%, the trading result has leapt +42% to £220 million. This corresponds to a profitability for activities of 59% (operating margin/revenue), up 4 points against 2005.
On the other hand, financial charges still reflect the cost of the historic debt, leading to a net loss of £143 million. Post restructuring, and assuming it had taken place by 1 January, the proforma net result (that is to say calculated on the basis of the new debt) would have been close to break even in 2006, last year of the MUC*.

6 March 2007

Jacques Gounon, Chairman and Chief Executive

** MUC: Minimum Usage Charge, clause in the Railway Usage Contract which links Eurotunnel to the railway companies which guaranteed, until November 2006, a minimum level of toll, independent of traffic fluctuations.*

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This report should be read in conjunction with Eurotunnel's Annual 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 ("Administrateurs 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 £89 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.

A description of the debt in place at 31 December 2006 is given in note 20 to the 2006 Combined Accounts.

Activity review and key performance indicators

Truck Shuttle activity

Eurotunnel has successfully continued to roll out its new sales policy, with truck transport revenues up 7% over 2006, notably due to the company taking back control of all of its distribution and pricing policy in Europe. Eurotunnel transported 1,296,269 trucks on its Shuttles during 2006, and in the fourth quarter, the 11 millionth heavy goods vehicle since the service began in July 1994 was carried. This level of traffic is down 1% in relation to 2005, a record year in the history of Eurotunnel due to an exceptional transfer of traffic from the port of Calais. Viewed against 2004, which offers a comparable reference point, truck traffic increased by more than 15,000 units.

Heavy goods vehicle transport accounts for the lion's share of Shuttle revenues. In August 2005, Eurotunnel took back control over all distribution and the pricing policy in Europe. Five subsidiaries were set up, covering a large part of the market and flows. This system is backed up by a network of agents (Austria, Germany, Poland and Switzerland) and exclusive distributors in charge of a regional sector and/or customer segment (part of the British market, Benelux, Scandinavia, Balkans, Greece, etc.). As a result, nearly 3,000 customer accounts are today directly managed by Eurotunnel teams.

In line with its policy, Eurotunnel has continued to give priority to its contract customers throughout the year, while only offering access to one-off customers within the limits of available capacity. This policy, based on fine-tuned traffic forecasts, makes it possible to optimise the load factor for Truck Shuttles, up from 59% in 2004 to 71% in 2006. The punctuality rate, a key element for quality of service, also remains high – 92%* in 2006 – without affecting the service provided.

Automatic check-in

On 19 April 2006, Eurotunnel opened automatic check-in lanes reserved for truck drivers at its Coquelles and Folkestone terminals. This system means that four check-in lanes can be available around the clock, ensuring that truck traffic flows more freely. In this way, the average transaction time has been cut to 45 seconds, compared with 50 previously. In addition, these automatic systems "speak" nine European languages. Eurotunnel has also rolled out an innovative and reliable truck licence plate recognition system, with 95% of traffic handled using this system. These innovations are paving the way for quicker transit times for Eurotunnel clients: 87 minutes on average from the A16 motorway in France to the M20 in England, compared with 90 minutes in 2005.

New timetable

In 2007, in order to meet the requirements of an ever expanding market more effectively, Eurotunnel has adjusted its transport capacities. Starting in January, a further 700 annual Shuttle departures have been made available during the night from Sunday to Monday, and from next July onwards, an additional 100 annual departures will be scheduled during the night from Friday to Saturday. Furthermore, in order to effectively factor in seasonal variations in traffic, 300 additional shuttle crossings have been planned during the autumn. Lastly, the timetable for 2007 has been refined, optimising the distribution of departures and minimising waiting times. This new approach should enable

**Departure within three minutes of planned time.*

Eurotunnel to further improve its performance during 2007. Particularly since the storms seen at the end of 2006 and early 2007, disrupting loading and unloading operations at the ports of Calais and Dover, once again highlighted Eurotunnel's competitive advantages: speed, ease and reliability.

Passenger Shuttle activity

By combining a reduction in costs with a marked increase in revenues, the Passenger Shuttle business achieved very good results in 2006. In this way, Eurotunnel is benefiting from the excellence of its offering in a stable market. Whilst the market downturn seen since 1999 seems to be coming to an end, Eurotunnel's Passenger Shuttles transported 2,021,543 cars and motorcycles and 67,201 coaches in 2006, the equivalent of more than 7.5 million passengers during the year.

Eurotunnel's new sales policy, fully rolled out during 2006, aims to improve profitability through significant growth in operating margins. Although this objective is being met today, it is nevertheless inseparable from improvements in quality of service and customer satisfaction. The choice is paying off: despite an expected reduction in volumes (-2% compared with 2005), Passenger Shuttle revenues increased by +8% in 2006. This performance reinforces Eurotunnel's decision to pull out of the price war being waged between the shipping operators.

Lower costs

Eurotunnel has made several operational improvements: better distribution of Shuttle departures throughout the day, less departures during low traffic times and greater flexibility in the management of crew members. In this way, by better adjusting transport capacity in line with expected demand, Eurotunnel has significantly reduced its operating costs and optimised the load factor on its Passenger Shuttles: 62% in 2006, compared with 59% the previous year and 45% in 2004. Eurotunnel nonetheless remains the cross-Channel operator offering the highest number of daily crossings.

Higher revenues

Eurotunnel has introduced a new pricing policy, perfectly in line with recent market developments. The new pricing system calculates and varies ticket prices in real time, depending on the Shuttle chosen and its load factor. In other words, the higher the demand, the higher the ticket price. In general, customers who book early pay the lowest prices for their tickets. This system makes it possible to ensure that each space can be sold at the best possible price, while encouraging customers to travel in less busy periods. This new offer has been particularly well received, with departures during periods that were previously considered “off-peak” now almost as busy as peak-time departures.

Rail operators

Contrasting traffic trends have been confirmed: up for Eurostar, down for rail freight. 2006 also saw the end of the MUC, the mechanism guaranteeing a minimum payment from rail companies using Eurotunnel, which accounted for £65 million in revenues over the 11 months of 2006. The fact that the MUC no longer applies represents a shortfall of £6 million for 2006 and approximately £70 million per year in future years. Few companies would be able to absorb such a shock. Eurotunnel has taken account of this loss in its business plan which, due to the negotiated financial restructuring, will not be fundamentally affected. In total, the charges paid by the British Railways Board (on behalf of Eurostar and EWS) and by the SNCF amounted to £240 million in 2006.

Eurostar traffic rose by 5% in 2006, with 7,858,337 passengers using the Tunnel on high speed trains linking London, Paris, and Brussels. The commissioning of the second stretch of the high speed line to the British capital, known as “High Speed One”, and a new terminal at Saint Pancras International, has been confirmed for 14 November 2007.

The rail freight operators carried 1,569,429 tonnes of goods (- 1%) through the Tunnel in 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)	2006 Actual	2005 Reported	2006/05 % change
Exchange rate €/£	**1.462**	1.465	
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 Eurotunnel 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 £1million 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 increase up 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 ("Administrateurs 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)	**2006 Actual**	2005 Reported
Exchange rate €/£	**1.489**	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.

Future prospects and main risks

Future prospects

Once the financial restructuring puts Eurotunnel back on a healthy footing, it will be an appropriate time to launch Europorte 2 and to revive the company's development activities in France.
ESA's subsidiary Europorte 2 was granted a rail freight operator's licence by the French Minister for Equipment, Transport, Housing, Tourism and Maritime affairs and the Secretary of State for Transport and Shipping on 13 March 2004. This was the first licence granted in France after the Trans-European Rail Freight Network was opened to competition on 15 March 2003. The urgent need to carry out the financial restructuring meant that the launch of this activity was put on hold. Europorte 2 was granted a new licence in February 2006, and Eurotunnel now plans to launch Europorte 2 within six months of completing the financial restructuring. Europorte 2 will initially position itself as a local operator player and will increasingly widen its circle of influence from its bases in Calais and Folkestone, to bring customers to and through the Tunnel. This activity could also cover coastal rail movements within countries in the region. Europorte 2 will act in conjunction with the established players so that they can make use of the operational flexibility of these facilities. To this end, Eurotunnel announced on 15 February 2007 that it had purchased five Class 92 locomotives following a public tender by Eurostar, which has a fleet of such locomotives. While this activity is getting off the ground, it is intended that fixed costs will be contained by means of outsourcing and partnerships.
Within the framework of Eurotunnel's regional economic development role, it will continue the major development project in the area, for which Eurotunnel provides support to the Sangatte-Blériot Plage local authority. Conceived as a vast tourist centre at the foot of the nationally recognised Site des Deux Caps, which includes Cap Blanc-Nez, the project extends over 110 hectares and will involve a golf complex, and other buildings. The residential development is located on the site of Eurotunnel's old factory for producing tunnel lining segments, which was subsequently requisitioned by the French government from September 1999 to December 2001. Furthermore, in partnership with the relevant local authorities, Eurotunnel is launching studies regarding developments in the ZAC 2 zone that will enable it to continue to pursue this development project.

Main risks

There are three main categories of risks with which Eurotunnel is faced: those related to the implementation of the Safeguard Plan and the financial restructuring, market risks and risks linked to its activity.
The main risks related to the implementation of the Safeguard Plan and the financial restructuring are detailed above in the section entitled "Important events and detailed financial and legal aspects of the Safeguard Plan".
The main market risks are the following (see notes 1 and 20 of the 2006 Combined Accounts): risk related to Eurotunnel's debt, exchange rate risk, and interest rate risk.
The main risks related to Eurotunnel's activity are: revenues are largely dependent on the evolution of the cross-Channel market, which itself is dependent on factors which Eurotunnel, for the most part, do not control; Eurotunnel faces strong competition; Eurotunnel must face the risks inherent in the operation of the infrastructure; Eurotunnel is exposed to the risk of terrorism; and Eurotunnel will have to comply with the specific provisions in the Railway Usage Contract.

Corporate governance

Under the Concession agreement, the Board is responsible for the administration of Eurotunnel. The Board ensures that Eurotunnel complies with corporate governance principles. Due to its unusual situation, Eurotunnel did not comply with all applicable provisions* throughout the year.
In 2006, the Joint Board was made up of the Chairman and Chief Executive and six non-executive directors, directors of Eurotunnel SA (ESA), Eurotunnel P.L.C. (EPLC), France Manche SA (FM) and The Channel Tunnel Group Ltd (CTG), except for Colette Neuville, who is a "censeur" for ESA and FM. Her appointment as a director of ESA and FM will be proposed at the next general meeting. Robert Rochefort is the senior independent director. The Board considers Henri Rouanet and Colette Neuville to be independent non-executive directors*.
The Board met 18 times in 2006. The Board committees meet to take a more detailed look at specific aspects of Eurotunnel's business, always under the responsibility of the Joint Board. In 2006, Henri Rouanet was tasked with two specific mandates: the monitoring of safety and security functions; relations with the French authorities in connection with their contribution to financing safety and security costs, specifically state-related.

Eurotunnel's Joint Board

Jacques Gounon, Board member since 17 December 2004, Chairman and Chief Executive of Eurotunnel since 14 June 2005, Chairman of the Eurotunnel Board and ESA, EPLC, FM and CTG, since 18 February 2005, **ADACTE** (Association de Défense des Actionnaires d'Eurotunnel), represented by its chairman Joseph Gouranton, Board member since 7 April 2004. **Hervé Huas**, Board member since 7 April 2004. **Colette Neuville**, co-opted as a Board member on 15 December 2005. **Jean-Louis Raymond**, Board member since 7 April 2004. **Robert Rochefort**, Board member since 7 April 2004. **Henri Rouanet**, Board member since 4 March 2005.
The total amount of directors' remuneration in 2006 was £377,159. The remuneration of individual directors is given in the 2006 Combined Accounts in the section "Report of the Joint Board on the Remuneration Policy for Staff and Directors".
Details of the directorships held by the directors during the year can be found in the 2006 Combined Accounts.
Chaired by Robert Rochefort, the **Audit Committee** met eight times in 2006. It analysed Eurotunnel's major financial options (2005 accounts and the main conditions for the financial restructuring) and ensured a constructive dialogue with the Auditors (going concern and the alert procedure). It analysed risks and validated internal controls. It monitored the adequacy of the

**As set out in the reference documents: Combined Code on Corporate Governance in the UK (July 2003); the Viénot and Bouton reports in France (1995, 1999 and 2002).*

financial information provided to shareholders. The **Safety, Security and Environment Committee** (SSEC) is primarily responsible ensuring the maintenance of the highest safety standards. Chaired by Henri Rouanet, the SSEC met four times in 2006, on the two terminals, with the participation of the principal operations managers. The SSEC closely examined the development of safety-related performance indicators and gave management the support and guidelines needed to manage this performance effectively. The chairman of the committee ensured that no budgets linked to safety projects should be called into question.
The **Remuneration Committee** is made up of ADACTE (Chairman), Robert Rochefort and Henri Rouanet, and met four times in 2006. The **Nomination Committee**, chaired by ADACTE, did not meet in 2006. The **Strategy Committee**, made up of Jacques Gounon, Robert Rochefort, Henri Rouanet and ADACTE and with Colette Neuville by invitation, met 15 times in 2006. It reviews all strategic goals in line with the corporate objectives in order to advise the Board.
The report of the Chairman on internal control is included in the "Eurotunnel Statement on Corporate Governance" section of the 2006 Combined Accounts.

Human resources

Eurotunnel has made a number of internal redeployments, adapting its organisation to a streamlined workforce of 2,263 employees. At the same time, a series of agreements have been reached enabling greater visibility of career development opportunities and introducing attractive variable pay packages.
Following the drawing-up of the voluntary redundancy programme in 2005, the operational reorganisation of Eurotunnel has been implemented over the last year: in total, the workforce has been reduced by 891 through voluntary redundancies between June 2005 and the end of 2006. At the end of December 2006, the business had 2,263 members of staff (2,205 full-time equivalents), with 786 in the UK and 1,477 on the Continent.
Numerous internal redeployments were necessary in order to achieve this radical shift: 277 employees changed positions or places of work, with many of these changes accompanied by promotions. A substantial portion of the training budget was devoted to these internal redeployment actions: 2,280 training days were provided for this purpose.
Employees in France who chose to leave Eurotunnel received support in order to help them find alternative employment. 14 months after the first departures, 77% of these employees had found definitive positions elsewhere. It was not necessary to implement the same support measures in the UK, since the more fluid job market offers greater opportunities for a return to employment.
In terms of labour relations, a Career Pathway agreement, the first round of negotiations on the forward management of jobs and skills, was signed in France in July, with four of the unions represented in the company. This provides each employee with better visibility over the development of their careers within the business, through the continuous development and improvement of their skills. Discussions are now underway on a second section relating to the management of internal mobility.
In the UK, discussions are continuing with staff representatives with a view to setting up a career management system entitled "Rate for the job", which differs from the career path solution and is in line with the British cultural approach to skills management.
Discussions over the implementation of an employee incentive scheme were conducted during the course of the year, with an agreement signed at the beginning of 2007. This scheme provides for the awarding of a six-monthly bonus (a timeframe corresponding to the company's seasonal summer/winter business cycle), paid when certain operational efficiency targets are met. The agreement demonstrates Eurotunnel's commitment to getting its employees even more involved in its success, highlighting the efforts made by everyone to constantly improve their performance, and acknowledging the contribution made by each person to the collective effort. Since there is no equivalent legal mechanism for the incentive scheme in the UK, an equivalent mechanism based on the same progress indicators is being offered to employees working under British contracts.
The annual pay negotiations resulted in an agreement that was unanimously backed by French union organisations on 12 January 2007 and finalised in the UK on 16 February.

Environment

Respect for the environment is one of Eurotunnel's core values. Its continued importance is highlighted by the actions carried out during 2006, overseen by the new Sustainable Development Department: carbon footprint review, partnership with the French environment and energy efficiency agency (ADEME), waste management, etc.
The Channel Tunnel and its rail transport system have a number of intrinsic environmental advantages, including a fully underground link that prevents any interaction with the marine environment and electric locomotives that generate a low level of atmospheric pollution and only marginal greenhouse gas emissions. Through a series of initiatives, Eurotunnel has maintained progress throughout its years in operation.

Sustainable development commitment: True to its original nature and continued commitment to the environment, in 2006 the company set up a Safety and Sustainable Development Department. Safety represents an absolute requirement for Eurotunnel. Combining it with a strong sustainable development policy shows to what extent these issues are important for Eurotunnel.
Carbon footprint: Eurotunnel is concerned about greenhouse gas emissions (CO_2 etc.) linked to its activities, even if they are low. With the help of a specialist firm, a carbon review was carried out in September 2006, with an in-depth analysis covering gas generated by workshop activities, diesel locomotives and land vehicles used for transporting staff, catering etc. The findings should be known early in 2007 and, irrespective of the

results, will pave the way for an emission cutting plan to be implemented. It is already evident that rail is one of the most ecologically sound means of transport, and that Eurotunnel is already the least polluting cross-Channel operator.

Energy savings: For Eurotunnel, managing its energy needs effectively represents a key part of the global business strategy. Several reviews were conducted during 2006 with a view to identifying further possibilities for reducing levels of consumption. These have led to a number of initiatives aimed at optimising heating and lighting costs for buildings and for the Tunnel itself.

Waste management: Eurotunnel has maintained its commitment to sorting its waste, an approach reflected in the continued improvement in waste storage conditions and transfers through to final destination and the reduction in waste volume. Selective sorting continues effectively thanks to the motivation of staff, with 30% of general waste recycled, while only 10% is incinerated.

Reducing water consumption: The fitting of an automatic filter at the Coquelles Terminal treatment plant has made it possible to reduce significantly the level of water consumption from operations, down from 3,500 m^3 to 160 m^3 in 2006. In addition, various changes made to the management of the Tunnel's cooling systems and procedures have enabled the quantity of water used in this way to be cut by 30% (-3,000 m^3).

Ground protection: In order to prevent ground pollution in the event of diesel leaking from any of the trucks transported by the Shuttles, a breakdown truck has now been equipped with a powerful explosion-proof pump, making it possible to pump out the entire contents of a 900-litre tank in just two to three minutes. Any fuel recovered in this way is then sent to a suitable processing centre.

Biodiversity: As soon as the construction period ended, Eurotunnel adopted a policy for managing its various green areas, monitoring the flora and fauna on its two Terminals. This ecological monitoring, carried out for a number of years now, has shown the high heritage value of the French and UK sites. In England, the Samphire Hoe site was awarded the "Green Flag" for excellent ecological quality for the second year running.

Summary[1] Combined Accounts

Income statement

(£'000)	**Year to 31 December 2006**	Year to 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 of 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 dependent 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 being 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.

[1] The full Annual Accounts are available on the Internet site www.eurotunnel.com or by request to the Shareholders Information Centre: 08457 697 397.

Eurotunnel P.L.C. Group Summary* Consolidated Accounts

Income statement

(£'000)	**Year to 31 December 2006**	Year to 31 December 2005
Revenue	284,370	271,830
Operating expenses	174,855	193,623
Trading profit	**109,515**	**78,207**
Impairment of property, plant and equipment	–	875,000
Other operating income and (expenses)	3,113	(14,059)
Operating profit / (loss)	**112,628**	**(810,852)**
Income from cash and cash equivalents	1,688	2,829
Cost of servicing debt (gross)	167,138	170,068
Net cost of financing and debt service	**165,450**	**167,239**
Other financial charges	14,773	6,490
Loss for the year before and after taxation	**(67,595)**	**(984,581)**

Balance sheet

(£'000)	**At 31 December 2006**	At 31 December 2005
ASSETS		
Total non-current assets	2,490,845	2,548,134
Total current assets	61,072	128,158
Total assets	**2,551,917**	**2,676,292**
EQUITY AND LIABILITIES		
Total equity	(890,922)	(838,738)
Total non-current liabilities	10,319	3,314,477
Total current liabilities	3,432,520	200,553
Total equity and liabilities	**2,551,917**	**2,676,292**

Notes

1. These Summary Accounts, which are a summary of information extracted from the Report and Accounts of Eurotunnel P.L.C. which were approved by the Board of Directors on 6 March 2007 and was signed on its behalf by Jacques Gounon, does not contain sufficient information to allow for as full an understanding of the results of the Group and the state of affairs of the Group or of the company as would be provided by the full Annual Report and Accounts. For further information, the full annual accounts which include policies and arrangements concerning directors' remuneration in the Directors' Remuneration Report, the Auditors' Report on those accounts and the Directors' Report should be consulted. Shareholders have the right to request a copy of the full Report and Accounts free of charge. If you wish to receive copies of the full Report this year and in future years, please write to Eurotunnel's registrars, Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.
2. **Auditors:** The Auditors' Report did not contain a statement under either section 237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records or returns) or section 273 (3) (failure to obtain necessary information and explanations).
3. **Statement of the Independent Auditors to the members of Eurotunnel P.L.C. pursuant to section 251 of the Companies Act 1985.**
   We have examined the Summary Accounts set out on pages 10 and 11. This statement is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and Auditors
The directors are responsible for preparing the Summary Accounts in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of these Summary Accounts with the full Annual Accounts and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Business Review and Summary Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Accounts.

Basis of opinion
We conducted our work in accordance with Bulletin 1999/6 "The Auditor's Statement on the Summary Financial Statement" issued by the Auditing Practices Board for use in the United Kingdom. Our report on Eurotunnel P.L.C.'s full annual accounts describes the basis of our audit opinion on Eurotunnel P.L.C.'s full annual accounts and refers to matters of emphasis relating to going concern, valuation of property, plant and equipment and the consequences of the implementation of the Safeguard Plan on the Eurotunnel P.L.C. accounts. These uncertainties are described in the section entitled "Important events and detailed financial and legal aspects of the Safeguard Plan" in this Business Review and Summary Accounts.

Opinion
In our opinion the Summary Accounts are consistent with the full accounts of Eurotunnel P.L.C. for the year ended 31 December 2006, and comply with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, 6 March 2007

** The full Annual Accounts are available on the Internet site www.eurotunnel.com or by request to the Shareholders Information Centre: 08457 697 397.*

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 0.55 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. A description of the debt in place at 31 December 2005 is given in note 20 to the 2005 Combined Accounts.

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.

Activity review and key performance indicators

Truck Shuttle activity

The transportation of trucks is the lynchpin of Eurotunnel's business. Eurotunnel carried 1,308,786 trucks in 2005, in a market increasing by 3%.

Eurotunnel brought in radical changes to its commercial policy and adapted its operational organisation for this key sector from 3 January 2005. The principle now applied to both areas is that transport capacity is adjusted to meet the foreseeable demand of our customers, the European road hauliers. Our largest customers now give us daily traffic forecasts so they can have optimum access to Eurotunnel's Shuttle service, which already offers levels of frequency and reliability which maritime operators cannot equal. Hauliers who do not have an agreement with Eurotunnel can only use places which remain available and have to pay higher prices. This new system is easy to understand and has been well received. The storms in the winter of 2004 to 2005 combined with a number of incidents which disrupted loading and unloading operations at the Port of Calais for several months from February 2005 onwards, served to highlight the competitive advantage which Eurotunnel offers and underline the wisdom of the new commercial policy. As a result, a large majority of customers have signed contracts entrusting an increasing share of their business to Eurotunnel. These types of arrangements are particularly suitable for customers for whom short crossing times and a guarantee of quick loading are determining factors, such as haulage companies carrying flowers from Holland, fruit and vegetables from Spain or Italy, fish caught off Scottish coasts or spare parts and manufactured goods bound from one side of the Channel to the other.

Amongst other initiatives, Eurotunnel took back control of all distribution activities and pricing policy in Europe on 16 August 2005, following termination of a contract which had outsourced the marketing of crossings to small and medium sized hauliers. From the operational standpoint the adjustments in transport capacity, made possible by adapting to customer requirements in advance, have reduced the number of Shuttle departures by around 15% without adverse impact on the quality of service. Eurotunnel still offers 60,000 crossings for trucks per year, with departures every ten minutes at peak times – much more frequent than anything the competition can provide. The load factor on our Shuttles has risen significantly from 59% in 2004 to 71% in 2005.

Passenger Shuttle activity: cars

Eurotunnel Shuttles carried 2,047,166 cars with 5.2 million* passengers in 2005, providing unrivalled levels of speed, ease and comfort. This was achieved in a market which was both shrinking and highly competitive, and in which there was clearly excess overall capacity.

As a response to these conditions, Eurotunnel changed the focus of its sales and marketing policy for Passengers in the spring of 2005, to bring it in line with the Group's new economic model

** Based on research conducted by Eurotunnel in 2005.*

which now concentrates on increasing operating margins and seeking better profitability, rather than the pursuit of volume and market share. In other words, the objective for the Passenger Shuttles is to optimise the load factor and the yield per vehicle carried. The results of market research convinced Eurotunnel that it was still possible to gain further ground at the higher end of the market and boost its Shuttle service. Transport capacity – i.e. the number of trains running – is adjusted to anticipated demand by means of a booking system which allows Eurotunnel to provide a better quality service and at the same time reduce operating costs. The main advantage which Eurotunnel offers in terms of quality of service lies in the ability to get customers across the Channel quickly, comfortably, and at the time they have chosen. Costs are brought down as adjusting transport capacity means that, when demand is lower, shuttles can be withdrawn from service and maintenance schedules can be adapted accordingly.

The new Eurotunnel website which went on-line in June 2005, is an important tool in this new approach to sales. Customers can now take their time to look at the full timetable and decide which crossing suits their schedule and their budget best. This facility has also led to a significant fall in costs for the telephone booking centre: around 70% of Eurotunnel's customers now buy their tickets on-line.

A dynamic pricing module was also put in place in 2005. This module calculates and adjusts ticket selling prices on the basis of the shuttle selected and its load factor. The system ensures that each place is sold at the best price and also allows the company to make promotional discounts when demand is low or to offer lower prices to Eurotunnel customers who book early.

Eurotunnel is also continuing to help improve the range of facilities available in its passenger buildings at Folkestone and Coquelles. A number of new outlets opened in 2005, including a bar, an electronic goods store, a fine food specialist and others.

Eurotunnel is anxious to know what its customers think, and surveys are conducted continuously on board the Shuttles. Results show that 75% of travellers are "satisfied" or "very satisfied", and that 83% would recommend Eurotunnel to others.

Passenger Shuttle activity: coaches

2005 brought a five-year record for Eurotunnel with 77,267 coaches transported on board Passenger Shuttles, a 22% leap over the previous twelve months. Clearly, the operational problems at the port of Calais from February 2005 onwards contributed to this spectacular rise. The fact remains, however, that, compared with 2004, the number of coaches using Eurotunnel started to climb before the problems began. Coach professionals recognise Eurotunnel's three key advantages: speed, ease and reliability.

In this positive context, demand from regular coach line operators rose sharply, especially companies serving the major cities of the countries which have recently joined the European Union and the UK. School and linguistic travel operators also made a substantial contribution to the increase in volume. Eurotunnel is a safe and comfortable means of transport for staff accompanying groups of young people to and from Great Britain.

Despite competition from low-cost airlines, the number of tourist coaches on long- and short-hauls formed a remarkable share of the Passenger Shuttle business in 2005.

Rail operators

As well as running its own Shuttle transport system, Eurotunnel also earns revenue from the rail operators whose trains use the Channel Tunnel. Tolls paid by the British Railways Board, on behalf of Eurostar and EWS, and by the SNCF totalled £235 million in 2005, including £72 million as "Minimum Usage Charge" (MUC), under the terms of the contract between the rail companies and Eurotunnel which guarantees a minimum contribution, regardless of any variation in traffic levels. The MUC payment ceases at the end of November 2006.

Business progressed in different ways with different operators in 2005. Eurostar growth was slower than in the previous year and there was a continuing decline in use by SNCF and EWS goods trains. The volume of cross-Channel business for all of these rail companies is still well below original projections, which forecast the carriage of 23 million passengers and 11 million tonnes of freight in the Channel Tunnel in 2005.

Eurostar

There was further strong growth in the number of passengers on Eurostar trains through the Tunnel through to June 2005 following the opening of the first section of the high-speed line between Folkestone and London in 2003, bringing shorter journey times and more regular schedules. The trend was then temporarily interrupted by the terrorist attacks in London in July 2005. The year ended with traffic increasing by 2% over 2004, with a total of 7,454,497 passengers.

SNCF and EWS goods trains

The volume of freight carried through the Tunnel by these rail companies fell by 16% in 2005. The year's total was down to 1,587,790 tonnes, reflecting a worsening of the trend which began in the second half of 2004. This figure is almost down to the lowest-ever level, recorded in 2002 at the time of the disruption caused by asylum seekers.

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)	**2005 Actual**	2004 Restated*	2005/04 % change
Exchange rate €/£	**1.465**	1.466	
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*

**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)	**2005 Actual**	2004 Restated*
Exchange rate €/£	**1.459**	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)**

**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.

Future prospects and main risks

Given that the date of approval of the 2005 accounts is the same as that for the approval of the 2006 accounts, Eurotunnel does not consider it appropriate to describe the future prospects and main risks relating to 2005.

Corporate governance

The Joint Board of Eurotunnel supports the principles set out in the Combined Code on Corporate Governance published in the UK in July 2003, and the main recommendations of the Viénot and Bouton Committees published in France in 1995, 1999 and 2002. Despite the continuing work to bring its Corporate Governance into conformity during the year 2005, the Group, due to its very particular situation, has not been in compliance with all the provisions of the Combined Code throughout the year.

At the end of 2005, the Joint Board was composed of seven members all of whom, with the exception of Colette Neuville, are directors of Eurotunnel P.L.C., Eurotunnel SA, The Channel Tunnel Group Limited and France Manche SA. Colette Neuville is director of Eurotunnel P.L.C. and The Channel Tunnel Group and is "Censeur" of Eurotunnel SA and France Manche SA. The names of directors during the period 2005 are listed below.

The Joint Board met 22 times during 2005. It is aided by five committees which are in place to review specific issues in greater detail.

The members of Eurotunnel's Joint Board and its different committees

Jacques Gounon, Chairman of the Joint Board (since 18 February 2005), Chief Executive (since 15 June 2005), member of the Strategy, Audit and Safety, Security and Environment Committees. **"L'Association de défense des actionnaires d'Eurotunnel" (ADACTE)**, represented by its Chairman, Joseph Gouranton, Chairman of the Nomination and Remuneration Committees, member of the Strategy, Audit, and Safety, Security and Environment Committees. **Hervé Huas**, Deputy Chief Executive (until 30 March 2005). **Jacques Maillot** (until 4 March 2005), Chairman of the Joint Board (until 18 February 2005). **Colette Neuville**, co-opted 15 December 2005. **Jean-Louis Raymond**, Chief Executive (until 13 June 2005). **Robert Rochefort**, Chairman of the Audit Committee, member of the Strategy, Remuneration and Nomination Committees. **Henri Rouanet** (since 4 March 2005), Chairman of the Safety, Security and Environment Committee, member of the Strategy, Remuneration and Nomination Committees.

The Remuneration Committee, which met four times in 2005. The Chief Operating Officer and the Human Resources Directors were invited to participate in the committee meetings.

The Nomination Committee met once in 2005.

The Safety, Security and Environment Committee receives monthly reports from the departments. It monitors safety documentation and supervises the development of operating and safety procedures as well as the safety of operations, security and the impact of the Group's activities on the environment. The Safety Director has direct access to the Chairman of this committee.

The Strategy Committee is responsible for reviewing all strategic orientations within the Group's remit in order to advise the Joint Board. It looks at all aspects that are important to the Group's future and at any initiative likely to profoundly or durably affect its activity.

The Audit Committee meets the internal and external Auditors at least three times a year, together with management in order to check the quality of financial information given to shareholders, to consider the efficiency of internal audit systems and to facilitate communications between the Joint Board and both internal and external auditors. The Internal Audit Director has direct access to the Chairman of the Audit Committee.

The total amount of directors' remuneration in 2005 was £523,729. The remuneration of individual directors is given in the 2005 Combined Accounts in the section "Report of the Joint Board on the Remuneration Policy for Staff and Directors".

Details of the directorships held by the directors during the year can be found in the 2005 Combined Accounts.

The report of the Chairman on internal control is included in the "Eurotunnel Statement on Corporate Governance" section of the 2005 Combined Accounts.

Human resources

In 2005, Eurotunnel instigated a reorganisation project inspired by the need to increase operating margins in its core business of Passenger and Truck Shuttles.

Consultations with staff representatives started in France and the UK in February 2005. The French works committee rapidly appointed outside experts to keep staff informed as to the exact situation of Eurotunnel. At the beginning of June, an agreement was reached on an exclusive strategy of incentivised voluntary departures. The procedure ended satisfactorily on 20 October. On 31 December 2004, Eurotunnel employed 3,205 people (full-time equivalents).

Eurotunnel organised an exemplary departure package for staff leaving, including outplacement services. As of June, a unit was set up specifically for this purpose in France. The greater fluidity of the British labour market did not require the same type of service. The reorganisation of activities, redeployment and training of staff continued into 2006.

Negotiations concerning the future management of jobs and skills were opened with the staff representatives in January 2006.

Environment

Water saving: The water table beneath the Beussingue trench, rather than the mains supply system, will now supply the fire-fighting system of the Channel Tunnel.

Energy savings: Eurotunnel has optimised its electricity consumption measuring system (buildings, catenaries, etc.). Further energy savings from the operation of ventilation, cooling and compressed air production plants have been identified.

Noise pollution: Eurotunnel no longer announces information to customers by loudspeaker at night, or on windy days and overall noise levels have been judged acceptable by the French regional Department of Industry, Research and Environment.

Waste management: In France, the development of the waste sorting and temporary storage zone continued with the building of a 400 m^2 platform for the external storage of liquid waste, the acquisition of a storage box for inflammable liquid waste in drums and a machine to recycle aerosol cans. Eurotunnel completed the technical asbestos file, as per the requirements of the French decree dated 22 August 2002 and, in the UK, the Control of Asbestos at Work Regulations (2002). Risk assessments for treatment and removal are planned. In England, Eurotunnel manages to recycle 41% of all its waste, including a large part of concrete and steel scrap from the replacement of tracks in the Tunnel.

Ecological balance: In France, the northern region ornithological group has confirmed that a number of species typical of bushy terrain are now established on Eurotunnel sites, alongside species specific to wetlands. The greylag continues to nest and the population of crested lapwings has increased significantly for the region. The first inventory of invertebrates records the occasional presence of dragonflies. In England, Samphire Hoe was awarded the "Green Flag" for the high ecological quality of the site. Samphire Hoe was commended the environment category of the "Kent Volunteer Awards". There are now an impressive 9,400 orchids listed on the site, compared with just 67 in 1998.

Carbon footprint: The Eurotunnel Shuttles and other trains using the Channel Tunnel are hauled by electric locomotives. This form of energy alone transported almost three and a half million vehicles, sixteen million passengers and eighteen and a half million tonnes of goods between Great Britain and France in 2005. According to our main supplier, the production of this energy leads to the emission of just 20,000 tonnes of CO_2 each year. This is a modest total considering the density of the traffic and compared to other forms of transport which use fossil fuels such as petrol, kerosene, fuel oil and so on. It has been estimated that shipping companies providing the same transportation capacity as Eurotunnel over the same route would produce between twenty to thirty times more of the "greenhouse gas" carbon dioxide into the atmosphere. The ecological benefit now brought by Eurotunnel's choice of energy is the equivalent of a one percent reduction in car traffic in the UK.

Summary[1] Combined Accounts

Income statement

(£'000)	**Year to 31 December 2005**	Year to 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 of 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 dependent 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.

** The full Annual Accounts are available on the Internet site www.eurotunnel.com or by request to the Shareholders Information Centre: 08457 697 397.*

Eurotunnel P.L.C. Group Summary* Consolidated Accounts

Income statement

(£'000)	**Year to 31 December 2005**	Year to 31 December 2004
Revenue	271,830	275,070
Operating expenses	193,623	207,110
Trading profit	**78,207**	**67,690**
Impairment of property, plant and equipment	875,000	168,655
Other operating expenses	14,059	24,218
Operating loss	**(810,852)**	**(124,913)**
Income from cash and cash equivalents	2,829	2,766
Cost of servicing debt (gross)	170,068	174,339
Net cost of financing and debt service	**167,239**	**171,573**
Other financial (charges) and income	(6,490)	2,829
Loss for the year before and after taxation	**(984,581)**	**(293,657)**

Balance sheet

(£'000)	**At 31 December 2005**	At 31 December 2004
ASSETS		
Total non-current assets	2,548,134	3,524,291
Total current assets	128,158	172,607
Total assets	**2,676,292**	**3,696,898**
EQUITY AND LIABILITIES		
Total equity	(838,738)	143,578
Total non-current liabilities	3,314,477	3,367,836
Total current liabilities	200,553	185,484
Total equity and liabilities	**2,676,292**	**3,696,898**

Notes

1. These Summary Accounts, which are a summary of information extracted from the Report and Accounts of Eurotunnel P.L.C. which were approved by the Board of Directors on 6 March 2007 and was signed on its behalf by Jacques Gounon, does not contain sufficient information to allow for as full an understanding of the results of the Group and the state of affairs of the Group or of the company as would be provided by the full Annual Report and Accounts. For further information, the full annual accounts which include policies and arrangements concerning directors' remuneration in the Directors' Remuneration Report, the Auditors' Report on those accounts and the Directors' Report should be consulted. Shareholders have the right to request a copy of the full Report and Accounts free of charge. If you wish to receive copies of the full Report this year and in future years, please write to Eurotunnel's registrars, Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.
2. **Auditors:** The Auditors' Report did not contain a statement under either section 237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records or returns) or section 273 (3) (failure to obtain necessary information and explanations).
3. **Statement of the Independent Auditors to the members of Eurotunnel P.L.C. pursuant to section 251 of the Companies Act 1985.**
   We have examined the Summary Accounts set out on pages 20 and 21.
   This statement is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and Auditors
The directors are responsible for preparing the Summary Accounts in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of these Summary Accounts with the full Annual Accounts and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Business Review and Summary Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Accounts.

Basis of opinion
We conducted our work in accordance with Bulletin 1999/6 "The Auditor's Statement on the Summary Financial Statement" issued by the Auditing Practices Board for use in the United Kingdom. Our report on Eurotunnel P.L.C.'s full annual accounts describes the basis of our audit opinion on Eurotunnel P.L.C.'s full annual accounts and refers to matters of emphasis relating to going concern, valuation of property, plant and equipment. These uncertainties are described in the section entitled "Important Events and detailed financial and legal aspects of the Safeguard Plan" in this Business Review and Summary Accounts.

Opinion
In our opinion the Summary Accounts are consistent with the full accounts of Eurotunnel P.L.C. for the year ended 31 December 2005, and comply with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, 6 March 2007

** The full Annual Accounts are available on the Internet site www.eurotunnel.com or by request to the Shareholders Information Centre: 08457 697 397.*

Eurotunnel SA
Siège social : 19, boulevard Malesherbes – 75008 Paris
Société Anonyme au capital de 381 924 631,95 euros
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