



## **Reorganisation: a major step on the road to recovery**

Dear Shareholder,

To ensure that Eurotunnel becomes a viable business with a long term future, two major projects have to succeed: first the complete reorganisation of the operating company, to bring it into line with the new business model, to make it more profitable, more reactive to market fluctuations; and secondly, the critical financial restructuring, without which our group would be unable to meet its obligations in 2007. These two projects are now well under way and I would like to bring you up to date with our progress.

### **The birth of a new company**

On 20 October, we took a big step towards the reorganisation of the operations. Following many months of negotiation, and without suffering any major labour upheaval, we completed the consultation with staff representatives. Between October 2005 and the end of June 2006, some 900 employees will leave Eurotunnel under a voluntary redundancy programme that has allowed us to avoid any compulsory redundancies.

The result of this programme is an important reduction in the workforce, from 3,200 to 2,300 employees. In spite of this diminution, I know that our staff remains determined to maintain and even improve the quality of service and safety that are our hallmark. In support of this ambition, the Joint Board has nominated Henri Rouanet as Chairman of the Board's Health Safety and Environment Committee (see article overleaf). His experience in this field will add value to the effectiveness of our safety management.

Now that we are committed to the reorganisation, we have to tighten our processes, remobilise our teams, expand and focus our skills and reduce activities that add little value. A new company is starting to evolve, alert to opportunity, flexible and attentive to our customers' needs but above all, completely different to the company you have come to know over the last few years.

This evolution will require renewed efforts from our teams. When I called a Management Forum on 8 November, bringing together some 200 of the company's managers, I was able to gauge the commitment our staff have to this company, their confidence in Eurotunnel's future and in the successful outcome of the debt negotiation. Thanks to their efforts we will be able to strengthen our position as market leader for cross-Channel transport and see our operating margins increase.

At the end of October, the negotiation with the Ad Hoc Committee of creditors (representing 45% of the debt) reached the halfway stage, a good point to conduct a review of progress. In three and a half months of negotiation, based on our business plan (that is now recognised by all as being "realistic"), in an intense but productive atmosphere, we are beginning to see convergence on three important issues: the level of debt the company can sustain; the total enterprise value; the need to simplify the debt structure. This common foundation is real progress and of the utmost importance to reaching a solid restructuring scheme.

However, I am bound by the confidentiality agreements and by the process of negotiations not to divulge any more at present.

### **Towards a new operating structure**

The structure of the debt – multiple tiers, diverse interest rates – needs to be simplified; just as we need to realign the interests of the creditors with those of the company. To do this, Eurotunnel is seeking to move from the original project finance model, with its many constraints, to a structure more suited to the holder of a long term concession. In such a structure, the concessionaire must, of course, reimburse its debt (hence the importance of reaching the right level), but it must also have the freedom to use its profits to invest in development.

We want to keep the rapid progress with the negotiations moving. The termination of the *waiver* at the end of January 2006 remains the target for an agreement with the *Ad hoc* committee on the mechanism of the restructuring. Following that agreement it will be necessary to engage in discussions with the "junior" creditors before putting the plan to you for approval. Once again I will need your full support and I am sure I can count on you to act - for the future of Eurotunnel.

**Jacques Gounon**  
Chairman and Chief Executive



## The essential work of the Safety, Security and Environment Committee

By choosing the Channel Tunnel, our customers demonstrate a level of confidence that should be a motor for the whole company. It is for this reason that the Joint Board and its Safety, Security and Environment Committee (SSEC) place such a high level of importance on the safety of the Tunnel.

Chaired by Henri Rouanet, the committee is composed of Jacques Gounon and Joseph Gouranton, together with the managers most closely concerned. The committee meets quarterly on the terminals, alternating between Coquelles and Folkestone.

The SSEC reviews reports presented by management and is kept informed of all major developments. Through this process the committee can see the high levels, maintained across the board, for safety (although there is room for improvement in lost time accidents), for security (significant reduction in illegal immigrants) and for the protection of the environment.

The committee is not, however, ready to let up the pressure on these issues, as we are all aware that even the best systems are not infallible.

To this end, the SSEC is very attentive to the necessary maintenance, upgrading and renewal of the railway infrastructure, which is the natural result of wear and tear from carrying the heaviest tonnage on a railway anywhere in the world.

At the same time, the European Union initiative to introduce a new safety and security management system (SMS) to replace the current "Safety Case", will require an even higher level of activity as, via a bat-



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Honorary  
Regional Prefect,  
Joint board  
Director of  
Eurotunnel,  
Former director  
of Civil Safety.

tery of parameters and criteria, we will move over the next two years to the transversal control of safety rather than, as currently by division.

The replacement of our radio communications technology, which dates back to the 1980s, is another major project that the committee is following. Thanks to the digital revolution, we will be able to achieve better synergies across the concession, both on board the trains and between the trains and the control centre. The new system will also allow us to achieve our ambition of better links with the national emergency services in France and the UK, an essential element in our safety approach. We are requesting that this project should be part funded by the EU.

The recent intrusion by an individual on the Folkestone terminal has caused us to review a part of our intruder detection system. As a result the management of Eurotunnel will implement, as rapidly as possible, some twenty measures designed to increase staff awareness, improve alarm reliability and increase the level of coordination between Eurotunnel and the emergency services.

The constant need to improve anti-immigration and anti-terrorist measures requires new investment, notably in the better detection of illegal immigrants in trucks before they enter the Tunnel.

Finally, the signature of a new contract between Eurotunnel and the Emergency services in France will ensure the continuity of in-tunnel safety services.

These major projects will inevitably be added to by other initiatives which will be identified following the current Safety System Audit.

Globally, the attention of the committee is focused on the clear definition of individual responsibility; the right balance of staffing in safety critical posts in the new organisation, the provision of the finances needed for the maintenance and renovation of equipment both now and in the future. The committee is equally concerned with the dissemination, as broadly as possible of the results of enquiries. It follows the integration of emergency plans and the lessons learnt from annual safety exercises and incidents.

The SSEC has a responsibility for vigilance at all levels and plays a vital role alongside the Joint Board and the Chief Executive in maintaining the strength of confidence in the relationships between Eurotunnel and those with an interest in this great European achievement.



### Hoverspeed throws in the towel

The intense competition which has been a feature of the cross-Channel market has recently led to the disappearance of one of Eurotunnel's historic competitors: on 7 November, the British company Hoverspeed brought to an end its rapid "Seacat" service between Dover and Calais. Since 2003 the company had shut down for the winter, this time it is for good.

This new development in the market is probably not the last. P&O is currently the target of a bid and two other operators, SpeedFerries and Norfolk Lines are engaged in the renovation or expansion of their fleets. So much change means that we need to demonstrate even greater flexibility in this constantly changing market.

### Shareholder questions

**Q1. Are there going to be any new initiatives in shareholder communications?**

In addition to the *On Track* newsletter, which we initiated in June, we have recently developed a new letter to email to shareholders and which is focused on the group's operations. This letter, titled "*Inside Eurotunnel*" was presented to the two Shareholder Committees at the start of October, the first edition sent on the 14<sup>th</sup> and the second on the 28<sup>th</sup>. If you would like to receive a copy of "*Inside Eurotunnel*", just leave us your email address at: [www.eurotunnel.com/uk](http://www.eurotunnel.com/uk).

We have also recently posted an interview with Jacques Gounon at [www.eurotunnel.com](http://www.eurotunnel.com) in which he discusses the progress made at the halfway stage of the debt negotiations.

**Q2. You say that you intend to adapt the transport capacity to customer demand. How do you intend to accomplish this?**

Since 1 January 2005, we have reduced the transport capacity of our Freight Shuttles by 15%; today, each shuttle leaves our terminals with, on average, a load factor of 72%, an improvement of 10 points compared to 2004.

For the Passenger service, our new commercial strategy came into full operation on 3 September with a total reduction of 35% in the number of departures. In just a few months, our load factor has gone up to 60%. These encouraging figures lead us to believe that we will see a significant improvement in operating margin, without there being any impact on the quality of service offered to our customers.

Eurotunnel would like to retain your data in order to keep you informed of the latest company news. If you would like to amend any of your details at any time, please contact the Shareholder Information Centre, Eurotunnel plc, P.O. Box 302, Folkestone, Kent CT19 4QZ.