

# Eurotunnel on Track



Letter to shareholders



## Dear Shareholder,

"Our company has many strengths", a shareholder recently wrote to me. He went on to say,

"We paid for part of the construction and I would like to be sure that this has been taken into account during the negotiations". That sums up exactly the approach we have taken over these last weeks, within the context of the "Safeguard Procedure".

Thanks to these efforts, the proposal for a draft plan put together by the company, with the support of the court appointed representatives\*, was approved almost unanimously by the Board on 26 October.

**Simple, balanced and realistic**, this proposal represents the best compromise possible between the demands of all the stakeholders.

**It has been designed to retain a significant amount of equity for current shareholders in this type of restructuring:** with no dilution in the first year, they will maintain control of the company until 2010. In the interim, shareholders will benefit from several accretion mechanisms (see over) which will allow them to keep between 67% and 13% (minimum guaranteed) of the group. This result, which is exceptional in this type of restructuring has been reached thanks to those who have, for such a long time, dedicated themselves to this great European undertaking.

This plan offers real potential: **for the first time in the history of Eurotunnel, a massive write off - of more than half the current debt - will see the company structured with financial charges adapted to its ability to repay.**

**The new legal entity** which will be the center of the reorganisation will allow us to be free of constraints linked to the past, without having any impact either on the Concession or on its bi-national structure.

The company's proposals were notified to the creditors on 31 October.

**At the end of November and the beginning of December, the court appointed representatives will, in accordance with the law, organise the vote by the creditors.** In the event of a favourable vote, the Paris Commercial Court will give its ruling on the plan. Its implementation, by means of an Exchange Tender Offer (ETO) will take place during the first quarter of 2007. Shareholders will be able to express their support for the Safeguard Plan by a massive participation in the ETO.

As far as the ending of suspension of share trading is concerned, which I know is a sensitive subject for you: I must remind you that the decision is in the hands of the market authorities. Whilst uncertainty remains about the future of the company, it is unlikely that the quotation will commence before the ETO.

I must remind you that there remain two risks:

- In the event that the creditors vote against the plan, Eurotunnel will be placed into administration and could be liquidated, or sold by the Paris Commercial Court. The asset value at liquidation has been estimated to be approximately £890 million, almost five times less than that put forwards in the plan. Shareholders would receive nothing. The same situation would pertain if the company was sold: shareholders therefore have even more reason to mobilise themselves to demand that the two States refuse the ruinous transfer of the Concession.

- It is also my duty to warn you against those who would encourage you to refuse to accept the ETO and to engage in a game of bidding brinkmanship. Make believe, "miracle" solutions do

not exist. Believing they do works against the interests of all shareholders.

**With massive debt write off, the current proposal has been designed to allow Eurotunnel to re-launch on a solid and lasting foundation. It will guarantee future integrity, independence and finally development and growth in value.**

Eurotunnel continues to perform well operationally as, for the third quarter of 2006 - when compared to the same period in 2005 - the overall revenue figure has increased by 7%, reaching the record level of £149 million. Shuttle Services, Eurotunnel's core business, is the main driver of this success, with a 12% increase. In spite of the ending of the "minimum usage payments" from the railway operators and cautious revenue objectives for the coming years - I want to turn away from unrealistic forecasts -, our goal must be profitability.

We have now reached a critical moment in the life of Eurotunnel where **the priority is to capitalise on these excellent results and on the opportunities which lie ahead.**

Together, "en masse" we must support and deliver the Safeguard Plan.

**Jacques Gounon**  
Chairman and Chief Executive

\* Court representatives: *Maitres Emmanuel Hess et Laurent Le Guernevé.*

Creditors' representatives: *Maitres Valérie Leloup-Thomas et Jean-Claude Pierrel.*

Supervising Judge: *M. Bernard Soutumier*

" News on line "

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# The proposals for a Draft Safeguard Restructuring Plan

## The Safeguard Plan opens up new horizons

> **A new Group with massively reduced debt and, for the first time in its history**, the opportunity to have a new financial structure, sound, lasting and offering real opportunities to develop and add value.

> **An exceptional amount of equity retained for current shareholders with several accretion mechanisms (see below)**. Introducing convertible hybrid notes (ORA: *Obligations*

*Remboursables en Actions*) into the package will allow the timing to be spread out, thus avoiding the almost total, immediate and irreversible dilution that is often part of such a restructuring.

> **A favourable context for the restoration of confidence** in the financial markets, allowing the raising of new funds under the best conditions.

## The key elements of the financial restructuring plan

**1 A write off of £3.4 billion, 54% of the debt, accepted by the creditors. The new debt will be £2.84 billion.**

■ For the first time since the start of the Concession, the company will have financial charges it can sustain, adapted to its performance and to its capacity to repay (see below).

**2 The creation of a new company, Groupe Eurotunnel SA (GET SA) which the current shareholders will be invited to join via an ETO<sup>(1)</sup>:**

■ This new structure is the lynchpin of the reorganisation. It will conserve the current Concession and its bi-national nature. It will offer travel privileges equivalent to those in existence for shareholders who participate.

■ The new group, GET SA, will carry a long term loan<sup>(2)</sup> which will serve to buyout the current senior debt, pay part of the interest frozen since 2 August 2006 and provide payments to certain creditors<sup>(3)</sup> as a complement to the convertible hybrid notes they will receive in exchange for renouncing all of their existing claims.

■ £1.275 billion of convertible hybrid notes will be issued, convertible into shares in GET SA over a period of three years<sup>(4)</sup> (in this way there will be no financial charges on the notes beyond that time). A large part of these notes (up to 61.7%) can be redeemed

by GET SA<sup>(5)</sup> during this time and in this way written off, thereby creating a further accretion effect for shareholders in GET SA.

**3 The retention by current shareholders, who take part in the ETO, of an exceptional amount of the equity in the new group (see diagram).**

■ A £60 million priority purchase of convertible hybrid notes will be offered to participating shareholders.

■ After four years, the final dilution will be a function of the number of convertible notes redeemed by the company over that time. Put simply, the larger the number redeemed and therefore written off, the lower will be the dilution of the equity: shareholders will retain between 67% (if all the notes are redeemed) and 13% (the absolute minimum, if none of the notes are redeemed).

■ There will be no conversion of the notes during the first year; after that, the notes will be converted into shares, c5% after 13 months, 5% more after 25 months and the residue after 37 months.

■ At the time of the ETO, shareholders will be granted warrants<sup>(6)</sup>. The exercise of the warrants will become possible if there is, between 2008 and 2010, an increase in the value of the company, notably as a result of the suppression of certain state imposed charges (e.g. the suppression of the financing of the Intergovernmental Commission). This would give shareholders an increased amount of equity through the granting of free shares in the new group.

1- At the launch of the ETO a detailed prospectus will be produced, in accordance with current legislation, this present document being only a brief synopsis for communication purposes.

2- A long term loan, over 40 years, for £2.84 billion, will be subscribed by GET SA. The negotiations currently put Goldman Sachs/Deutsche Bank in competition with Citigroup. The objective is to reach an annual interest payment of less than £150 million.

3- The current holders of the Tier 3 tranche of the debt and the bondholders, to an amount of £240 million.

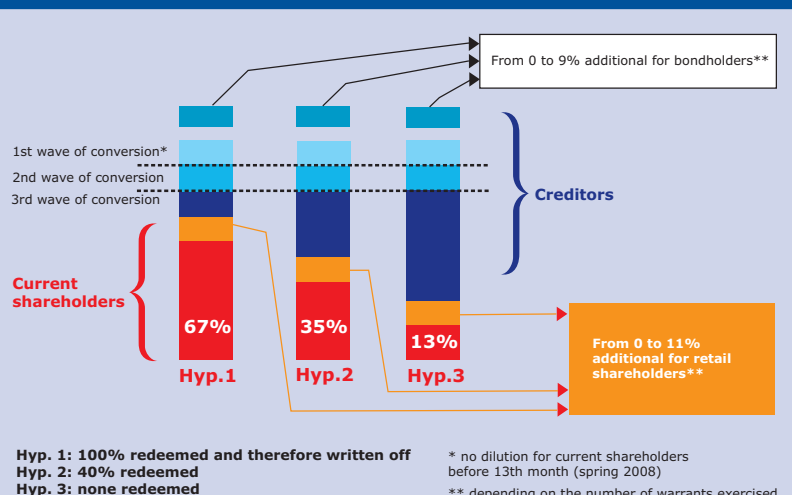
4- 37 months exactly.

5- With a cash redemption premium of 40%. The convertible hybrid notes will carry a coupon of 3% (non callable) and 6% (callable), equivalent to an average of 5% per annum.

6- 55% of the warrants will be reserved for shareholders who participate in the ETO, giving an opportunity to secure up to a further 11% of the equity.

Exchange rate at 2 August 2006: £1 = €1.46635. All figures are rounded up.

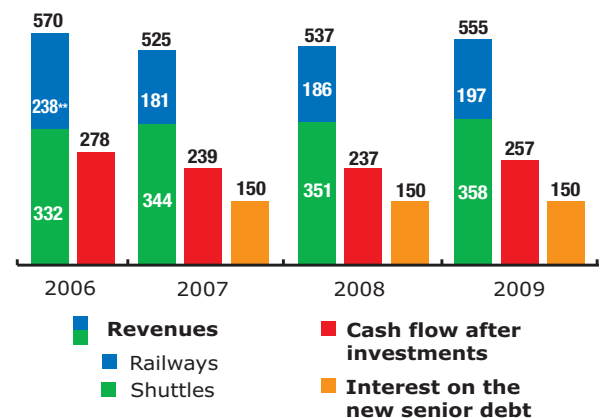
## Simulations of equity holding at the end of the restructuring in 2010, depending upon the amount of convertible hybrid notes redeemed, and in 2011, after the exercise of warrants



## Revenue objectives

In June 2005, Eurotunnel prepared a set of realistic forecasts\* (based on an exchange rate £1 = €1.4) for revenue and profitability which have formed the basis of the negotiations and the refinancing of the company. They are summarised below:

(In £million)



\* As they are objectives, these figures have no legal value; these objectives are extracts from the plan.

\*\* 2006 is the last year that Eurotunnel will benefit from the fixed payments from the railways (MUC), hence the reduction in revenue expected in 2007.