



## EGM Special Edition

### Dear shareholder,

The Extraordinary General Meeting on July 27 will address two important resolutions for the future of your Group:

- ▶ The alert procedure
- ▶ The financial restructuring

#### The alert procedure

This was initiated on 12 February by the Commissaires aux Comptes (French auditors). They considered that, given the uncertainties surrounding the nature of the business as a going concern, they could not certify the 2005 accounts. In simple terms, this is what I have been saying all along: unless there is a rapid agreement on a consensual financial restructuring, Eurotunnel is at risk of insolvency.

Under these conditions, your Board could not approve the 2005 accounts. This has had two serious consequences:

- ▶ The suspension of trading in London (and subsequently in Paris),
  - ▶ The inability to use "Standstill", the debt repayment moratorium.
- The Board could find itself accused of the fraudulent pursuit of an activity threatened by insolvency. Given the gravity of the situation, the law provides that the Commissaires aux Comptes present their alert report to the shareholders in person, during a special general meeting: this will be the general meeting on July 27 which, due to this fact, cannot be further postponed.

#### The financial restructuring

In the last edition of On Track, I announced the signature of a preliminary financial restructuring agreement with the creditors represented by the Ad Hoc Committee and presented its key elements.

This agreement was structured by Eurotunnel and negotiated over a long period of time. Banks of the calibre of Goldman Sachs and Barclay's are prepared to finance the whole agreement. To complete the picture we needed to find long term investors to stabilise and add value to the Group. Once again Goldman Sachs (via their investment arm), this time accompanied by Macquarie European Infrastructure Fund. They will be joined by AXA (Private Equity) who have recently committed to investing in the plan. A British investor is also currently considering the plan. In association with our shareholders, they are anticipating recovery and looking at the future prospects that the company holds. They are convinced that this is a serious and realistic perspective, as laid down in Eurotunnel's Business Plan, prepared last year at the start of the negotiations.

The plan announced on May 23 has encountered opposition from some of the most subordinated debt holders, who felt that they would not receive enough. These creditors have, until now, refused to sign the confidentiality agreements necessary to enter the discussions.

This obstacle has now been removed. As the Eurotunnel plan is preliminary, if improvements which are realistic and beneficial are suggested, I will not hesitate to remodel it. My only priority is to ensure that the Group recovers, and that it does so in the interests of all stakeholders.

In order that shareholders can keep themselves informed about the restructuring agreement, a specific section will shortly be available on the Eurotunnel web site. The Shareholder Information Centre is, as always ready to answer any questions you may have.

#### The moment of truth

I believe that I have respected my commitments: the operational recovery has been achieved and now all the elements are in place to save the Group once and for all.

It is now up to you to choose the future for Eurotunnel.

Some will tell you that insolvency is the miracle solution. I do not know what is driving them. I would simply remind you that all creditors, including the most subordinated, have priority over shareholders in such a case. That is the law. Given the wide distribution of capital, it is very unlikely that the Tribunal de Commerce would choose a continuation solution. It is more likely that the company would be taken over by an industrial group or groups. The existing shareholders would lose everything.

The Board is proposing a real financial restructuring, limiting dilution, with the possibility of refinancing in future and guaranteeing you the rewards of the recovery. The debt, the millstone around Eurotunnel's neck for the past 20 years, will be cut in half. Who would have believed that was possible, even a few short weeks ago?

This was achieved through a long and difficult negotiation and, in light of the Group's particular circumstances, it represents the very best that could be achieved.

#### You must vote!

It is vital for Eurotunnel that everyone takes part in the vote at the EGM on 27 July. I am very aware of the difficulty that the date presents for many people, but the deadlines facing us are inescapable. It is absolutely essential that you do everything you can to take part on the 27th, either in person, or by giving your proxy to the Chairman or a third party, or by postal vote.

At this crucial stage in the history of Eurotunnel, we need a strong signal from you as shareholders. The future of your Group will be decided through the vote of each of its shareholders.

Let make sure we save Eurotunnel.

**Jacques Gounon**  
Chairman and Chief Executive

# Shareholder's Questions

## When will Eurotunnel shares start trading again?

The market authorities decided to suspend trading: in the UK due to the non publication of the 2005 annual accounts; in France because rumours about the negotiations could have disturbed the market. Eurotunnel agreed with this decision.

At present, the Commissaires aux Comptes have not changed their opinion and therefore the 2005 Accounts cannot be approved. It is up to each market authority to consider the situation and the manner in which it must proceed, in order to decide whether or not to lift the suspension.

## Why have you complicated the restructuring plan with "hybrid" notes? Will the £1 billion issued in hybrid note form be added to the group's new debt?

The inclusion of these notes in the negotiation was the only way to avoid a massive and instantaneous dilution of Eurotunnel equity. The debt has been reduced by 54%. The "hybrids" cannot in any way become debt. They will either be bought-back by Eurotunnel over a five year period, or converted. It is for this reason that they are often referred to as "quasi-equity", as opposed to debt. Their conversion into shares is programmed by tranche starting between the third and fourth years.

These notes will be offered to some creditors in exchange for their debt. They will be listed in the markets and can therefore be purchased by any investor.

The Group can buy-back all or part of the notes, through a variety of means: refinancing the debt through renegotiation of interest rates, increasing capital, opening new lines of credit (up to £225 million already planned). Through this mechanism, the more notes bought-back, the less will be the dilution.

## Will the share price evolution compensate for the level of dilution?

There will not be any dilution until the end of the third year and beyond that it will be spread and managed progressively until the end of the fifth year, to avoid impact on the share price.

We are not able to make any forecast in this field, but with a debt reduced to a level coherent with the Group's capacity to reimburse, and in light of the excellent operating results, the coming years provide development opportunity for Eurotunnel which will garner the fruits of the operational reorganisation started last year. On paper the theoretical level of dilution falls between 0 and 87%. An average level appears to be reasonable.

## Why will there be an offer of exchange?

The offer of exchange will allow Eurotunnel and its shareholders to get rid of the enormous constraints of the existing structure, without affecting the Concession. The legal entity which will be created to issue the new shares will have no financial link to the historic creditors. Eurotunnel will enter a new dynamic of independence and intends to make the most of the opportunities which will arise in both operational and financial terms.

## Why is standstill no longer valid during an alert procedure?

Standstill is a specific provision in the Credit Agreements, the contract between Eurotunnel and its creditors. It is no longer applicable because the Commissaires aux Comptes have initiated an alert procedure as provided by the law (which takes precedence over the contract). Under this procedure, the Commissaires aux Comptes state that they cannot certify the 2005 annual accounts because they are not certain of the nature of the business as a going concern, and are therefore uncertain of its survival. Under such conditions, continuing to trade could be reprehensible.

## The "free" warrants A simple explanation

As part of the proposed offer of exchange that will be put in place during the autumn, if shareholders vote in favour of the financial restructuring, participating shareholders will receive travel privileges, double voting rights (for registered shareholders) and free warrants.

Warrants are financial instruments created by companies during capital transactions. For the offer of exchange, Eurotunnel is proposing to distribute these warrants with each new share exchanged for an old Eurotunnel share. The exercise of the warrants will be linked to the improvement in operating results compared to the 2005 business plan, and will give the opportunity of obtaining a fixed number of shares. In Eurotunnel's case, shareholders will exercise their rights before the end of the third year as the measure is intended to have a significant effect in limiting the impact of dilution from the conversion of the hybrid notes.

## The EGM on 27 July: How to take part

A shareholder pack, containing **the documents necessary for postal voting**<sup>(1)</sup> together with all information on participation will be sent to registered shareholders at the end of the first week in July. Shareholders who have not received their pack by mid July are invited to contact the **Shareholder Information Centre on 08457 697 397**.

Registered shareholders must send their documents to the company whose name appears on the proxy form in the shareholder pack.

<sup>(1)</sup> NB In respect of UK law, blank proxies are not valid.

**Eurotunnel On Track is an information document with no legal status.  
Only the documents for the EGM will have such a status.**

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