Eurotunnel on track

June 2006

Shareholder letter

Restructuring Special Edition

Dear Shareholder

After 10 months of tough negotiation, followed step by step by your Board, Eurotunnel has just signed (on 23 May) a preliminary restructuring agreement with the ad hoc committee of cofinanciers, in perfect alignment with the Memorandum of Understanding concluded in January.

It was strengthened on 30 May by a complete financing agreement signed with Goldman Sachs, Barclay's and Macquarie European Infrastructure Fund. Discussions are continuing with the other creditors, amongst others the holders of the most subordinated debt.

For shareholders, the agreement can be summarised thus:

- A debt write off of almost £3.3bn, equal to 54% of the total debt.
- The issue of listed "Hybrid" notes or quasi equity, for an amount of £1bn, accompanied by the arrival of investors with a long term perspective.
- No dilution for 3 years.
- A controlled dilution after five years, due to the exercise of free warrants, the possibility of refinancing the new debt under better conditions and the possibility of a buyback of the "Hybrid notes".
- Time to consolidate the recovery of the business set in motion at the end of last year, to allow the payment of dividends and new horizons for the share price.

If you accept this agreement at the Shareholder's Meeting, it will be put in place via (for technical reasons) the creation of a new holding structure "Groupe Eurotunnel" [1]. This entity will launch an offer of exchange, at the rate of one old share for one new share and warrants. The new company will, like the current, offer travel privileges to shareholders and you will have double voting rights if you are a registered shareholder. I believe that it is also useful to take this opportunity to consolidate the shares to reduce the speculation which can surround "penny stocks".

An open and balanced agreement

The Board and I have sought an agreement which is fair to all parties. This sharing of effort should be appreciated for what each party might receive in the case of insolvency or substitution.

If we take the example of the most subordinated debt holders who, having refused to sign confidentiality agreements which would allow them to negotiate, have launched a campaign to oppose the agreement; it must be understood that this part of the debt comes below all of the others (but, nonetheless, above the shareholders): we would need to add another £1.4bn of debt (which would be unsustainable) before these most subordinated debt holders could be reimbursed. In the interests of obtaining a consensual agreement, we have put forwards constructive proposals which, of course, take account of the very low values at which this debt is traded.

Key milestones

Now that there is, at last, a credible option for saving the company on the table, these creditors have announced alternative plans (which no one has yet seen). This has happened late in the day, but these supposed alternatives will nonetheless be studied in detail, if they become reality.

I will however ensure that they do not lead to a 'false dawn' restructuring, which would need to be reworked again in 10 years. They must also take account of the serious time constraints that we face.

In February, the Commissaires aux Comptes (auditors in France) set in motion the Alert Procedure and are unable to certify the 2005 accounts on the basis of the "going concern" issue. This situation cannot last for long. We must therefore be attentive to any approach which seeks to delay or create confusion in the restructuring process because, at the end of the day, it is you the shareholders who will end up paying the consequences.

A truly lasting solution

For the first time in Eurotunnel's history, the creditors have agreed to a massive debt write off, 54%, equivalent to almost £3.3bn, thus reducing the debt to £2.9bn.

By linking the efforts made by the shareholders since the outset and the risks taken by the investors, the financing package offers a reasonable balance, the most equitable possible between, on the one hand a massive debt write off and on the other a partial and deferred dilution of equity, backed by a policy of dividend payments.

Once the plan is in place, Eurotunnel will have a sound financial structure, including a sustainable debt level and real prospects for the future.

Financial restructurings are often brutal, instantaneous and irreversible. Here, the originality of the agreement, which is actually less complicated than it appears, is that it gives the shareholders 5 years to reap the benefits of successful recovery.

This preliminary agreement is the result of a very long and difficult negotiation and opens up real opportunities. It is not "my plan"; it is Eurotunnel's and the Board's.

It will become "your plan" if you approve it at the Shareholder's Meeting.

The coming months will be absolutely decisive for Eurotunnel. They are, in simple terms, about saving your Group.

Together we can continue this new dynamism.

Jacques Gounon
Chairman and Chief Executive.

[1] *the provisional name is HoldCo (Holding Company)*

Presentation of the restructuring plan to shareholders [1]

The financial restructuring plan, conceived by Eurotunnel, negotiated with the Ad Hoc Committee and financed by new investors, allows the alignment of the respective interests and assures a fair and balanced treatment for all stakeholders. This plan is, today, the best compromise possible and is a real opportunity for the Group.

Outlined below are the key elements of the financial restructuring plan:

1. A massive debt write off, 54%, equivalent to almost £3.3bn:
The negotiations led by Eurotunnel have reduced the debt to £2.9bn. This is the maximum sustainable by the business.

2. The creation of the new "Groupe Eurotunnel": The implementation of the plan will require, for technical reasons, the creation of a new legal entity, which will be at the centre of the restructuring. To this effect, the HoldCo FR (provisional name) will be created in France whilst a mirror subsidiary company, HoldCo UK, will be constituted in the UK. The concession is not affected as it is the two subsidiaries, Channel Tunnel Group Ltd and France Manche SA, which are the holders.

3. A financing commitment with the entry of new financiers and investors: Goldman Sachs, Barclays and Macquarie European Infrastructure Fund:
These new partners take a long term view and support a dividend payment policy. The agreement sets out the issue of Hybrid notes (see box). They can be bought back, totally or partially. In terms of Corporate Governance, four Directors out of 11 will be nominated by the Hybrid holders. This is an opportunity to install Anglo-Saxon directors.

4. Issue of a Public Offer of Exchange
The new entity "Groupe Eurotunnel" will launch an offer of exchange for the equity of Eurotunnel. This operation will allow shareholders to exchange their Units for:
- the same number of new shares
- an allocation of free warrants, which will aid accretion
- travel privileges
- a double vote for registered shareholders

Finally a consolidation of shares will take place, at a rate of 1:40

The level fixed for approval of the offer of exchange will be 60% of shares exchanged, subject to approval of the market authorities. This floor level should guarantee the mobilisation and adhesion of a large majority of shareholders.

"Hybrid" notes - a simple explanation

- Quoted "Hybrid" notes to an amount of £1bn will be offered to certain creditors in exchange for their current debt.
- The notes are called "Hybrids" because they are convertible into shares at the end of a predetermined period. It is therefore incorrect to describe them as either cash or debt. A classic part of many restructurings, it is more usual to refer to them as "quasi-equity".
- The notes which are not bought back will automatically convert into equity by tranche at the end of the third year (50% of the notes) and then at the end of each following year (25% at the end of the fourth year and the remaining 25% at the end of the five year period) in order not to impact the share price.

Erratum

In the Annual Review 2005, there is an error on the Key Figures page. Instead of "55% **trading profit** as a percentage of revenue" it should read "55% **operating margin (before depreciation)** as a percentage of revenue"

5. The payment of dividends to shareholders:
The restructuring agreement includes the possibility of payment of dividends to shareholders if cash flow allows.

6. Dilution is deferred and managed:
There will be no dilution in the first three years: the financing structure envisages the possible conversion of hybrid notes into shares at the earliest at the beginning of the fourth year. The theoretical dilution level, which is between 0% and 87%, could be limited by the effect of two "accretion"(*) measures included in the plan: on the one hand, shareholders who take part in the offer of exchange will benefit, via the warrants, from the growth in value of the new entity; on the other hand, the hybrid notes can be bought back at any time, within certain conditions and without the holders being able to object. The more notes bought back, the less would be the dilution.

7. A solid base for a recovery that will bring growth:
Eurotunnel intends to continue to seek new financiers and investors in order to gain the optimum conditions for refinancing the remaining debt. The group, thanks to a sustainable debt level, a good grip on operations and Europorte 2, will at last be able to develop.

8. A plan which requires the approval of shareholders at the Shareholder's Meeting
A complete restructuring plan will be presented to shareholders at the next AGM. The shareholders will be sent all the information in the document which will be presented to them to issue the exchange offer.

** Accretion is the reverse of dilution.*

[1] **This simplified presentation has no legal status. Only the shareholder circular and the prospectus for the offer of exchange would have that status.**

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