

# General meetings on July 27



EURO  
TUNNEL



## Dear Shareholder,

In view of the forthcoming general meetings (EPLC and ESA), which will take place on 27 July, I have the pleasure to enclose for you all the documents you need to understand the current situation and to express your vote:

- The Notice of Meeting,
- **The proxy or postal vote form,**
- A questionnaire,
- A prepaid envelope,
- An explanatory note, and
- This document, which presents the key elements and challenges of the proposed financial restructuring.

In the Notice of Meeting, you will find all the information necessary for you to express your views on the resolutions. If you are unable to attend the meetings, would you please complete and sign **the proxy or the postal vote form and return it as soon as possible so that your vote can be counted\***. I would urge, in particular, bearer shareholders to return their forms duly completed to their financial intermediary, as they will then forward the forms with the immobilisation certificate to our registrar.

I am aware of the constraint that the date of 27 July might impose on your plans for the summer, but this date cannot be put back<sup>(1)</sup>. The alert procedure initiated by its French auditors, obliges Eurotunnel to organise a general meeting so that shareholders can be informed of the risks affecting the Group as a going concern, which is conditional on the implementation of a financial restructuring.

The proposed plan is the result of long and difficult negotiations. It has been conceived to ensure a definitive rescue of your Group, through a massive reduction in the debt. It has been negotiated with pragmatism in several stages: a first scheme in July 2005, an outline agreement in January 2006 and a fully financed preliminary agreement in May 2006. It seeks a balanced compromise, acceptable to all, notably on the very sensitive issue of dilution.

Furthermore, as part of the launch of the exchange offer, which is the lynchpin of the restructuring, Eurotunnel plans to call on an independent expert to issue a fairness opinion.

At the time of writing, I know that this plan remains to be finalised and I pay tribute to your patience over these past 11 months, during which confidentiality agreements have meant that I could not keep you regularly informed of

progress in the negotiations. **It is now time to do just that.** A certain number of the most subordinated creditors remain to be convinced to support the plan. I am putting all my efforts into convincing them without affecting the key principles which are put forward for your approval.

That is the key point: **it is up to you, shareholders and therefore the real owners of Eurotunnel, to make your opinion known now.** The Joint Board and I have done everything we could to give you the means to decide. In due course, we will explain to you how to participate in the Exchange Offer.

The Joint Board approved the preliminary agreement in May 2006 and accordingly I consider the restructuring plan to be in the best interests of shareholders as a whole and would recommend that shareholders vote in favour of the resolutions relating to the restructuring to be proposed at the forthcoming general meetings.

It is absolutely essential that each and every shareholder takes part in these historic meetings. **I encourage you to do everything you can to express your vote.** You will find in this pack all the information you need on the options available to you to do so. To make travel easier for those wishing to attend the meetings in person and already in France at the time, a 20% reduction has been negotiated with SNCF\*\* for travel to the meetings. Any shareholder who would like to take advantage of this offer can do so on simple request to Eurotunnel.

For more information on Eurotunnel, please go to our website [www.eurotunnel.com](http://www.eurotunnel.com), where more information can be found under the special sections **“The restructuring”** and **“The EGM”**. You may also contact our Shareholder Information Centre by email to [shareholder.info@eurotunnel.com](mailto:shareholder.info@eurotunnel.com), or by telephone, on **08457 697 397**.

I thank you again for your trust.

Let's work together to save Eurotunnel.

Yours faithfully

**Jacques Gounon**  
Chairman and Chief Executive

(1) In the event of failure to reach the quorum for ESA, the meetings will take place on 10 August.

\* Our registrar will accept voting forms until 3:00 p.m. on 25 July.

\*\* Reduction valid for TGV and TER; not valid for Eurostar. Offer only valid for shareholders travelling to the Eurotunnel general meetings. To obtain all the terms and conditions and to benefit from this offer, contact the Shareholder Information Centre.

On May 23 2006,  
Eurotunnel signed a  
preliminary restructuring  
agreement with the Ad Hoc  
committee of co-financiers.  
This was strengthened  
further by a refinancing  
agreement.

**The plan envisaged in this  
agreement is preliminary and  
may therefore evolve or be  
further strengthened as a  
result of ongoing discussions  
with the Group's most  
subordinated creditors. The  
cornerstone of the financial  
restructuring will be the  
launch of an Exchange Offer  
by the new entity "Groupe  
Eurotunnel".**

What you **really** need to know  
*about the financial*  
**restructuring**  
*plan*



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IT SHOULD BE READ TOGETHER WITH THE EXPLANATORY NOTE. If you are in any doubt as to the action you should take, you are should seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised independent professional adviser.** If you have sold or otherwise transferred all of your Units, please forward this document together with the accompanying Notice of Meeting and Forms of Proxy at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold part only of your holding of Units please consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

If the terms of the proposed restructuring are modified between the date of this document and the date of the shareholder meetings, Eurotunnel will provide details of such changes to its shareholders. Shareholders may also contact the Shareholder Information Centre.

Putting the technicalities and complexity of certain aspects of the transaction aside, **the principles of the restructuring are simple.**

We will create a new Eurotunnel group:

- with a debt level in line with its resources
- offering real opportunities for shareholders
- supported by investors with a long term approach
- with a real debt reduction from its creditors

The principles of the restructuring can be described in **four key stages:**

**A massive 54% debt write-off, equivalent to a reduction of £3.3 billion**

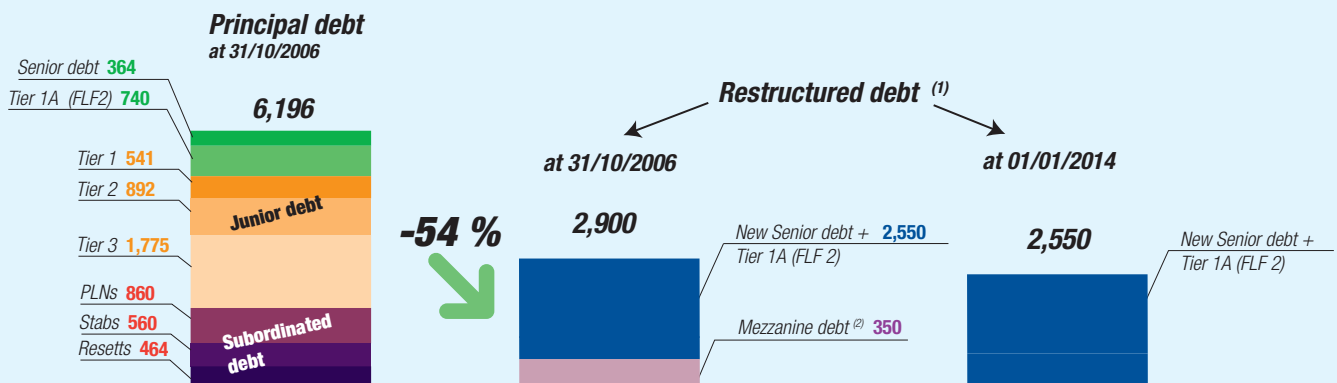
The new debt, reduced to **£2.9 billion**, represents the **sustainable level of debt** for the Group.

As a result of this plan:

- the relationship between Eurotunnel and its debt holders will be simplified, with a **very small number of creditors and investors rather than in excess of 100 creditors currently.** The debt becomes much simpler for all concerned;
- through its new debt, **Eurotunnel will be able to take advantage of favourable interest rates.** To ensure the viability of the new financial structure, the annual instalments due on the senior debt have been calculated so that the ratio of annual interest + principal / cashflow is less than 80%. Furthermore, with repayments adapted to the Group's available resources, Eurotunnel will once again grow in confidence. Your Group will borrow £1.8 billion over 36-42 years with a top up (Mezzanine facility) worth £350 million over seven years.

**Graph 1: Debt structure**

Amounts in £ millions



(1) The structure of the restructured finance also includes hybrid securities for a face value of £1 billion, the non-redeemed part of which is convertible into shares. The securities are not debt equivalents.  
 (2) Part used to refinance Junior debt Tier 3, part of the repurchase of part of the subordinated and the constitution of a cash reserve for the Group.

## Hybrid securities to keep control over the restructuring

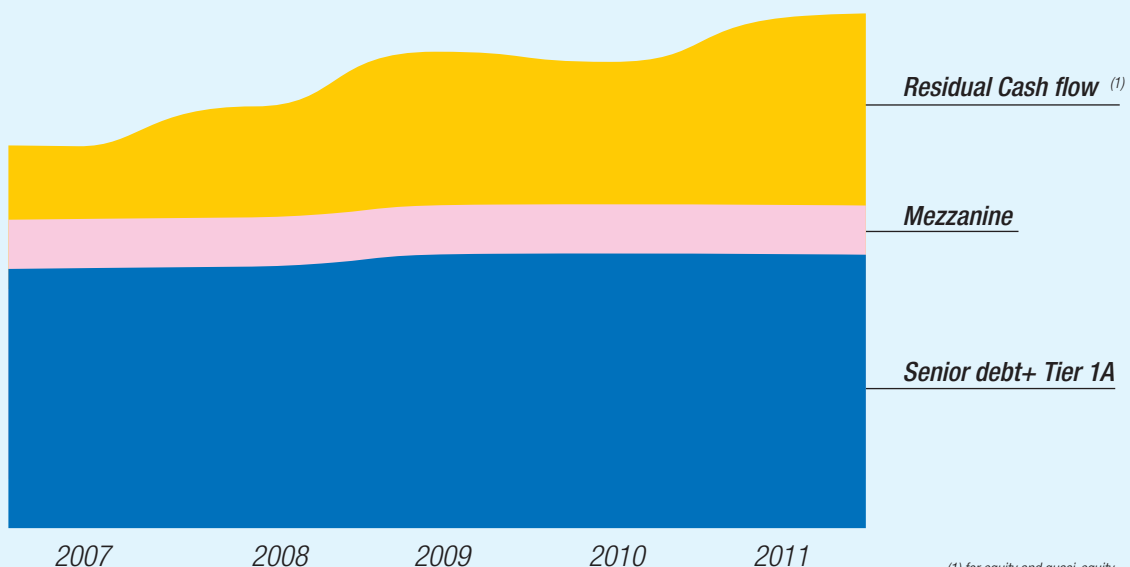
The restructuring has been planned over five years to avoid an immediate, almost total and irreversible dilution.

In simple terms:

- **an issue of £1 billion** of hybrid notes convertible into ordinary shares in the new company will be offered to certain creditors in exchange for their current holdings (see below);
  - these notes are called “hybrids” for the simple reason that they are treated as quasi-equity. This type of instrument is usual in large restructurings of this nature;
  - a listing will be sought for these notes on a regulated market and they will be accessible to both institutional and private investors; and
  - Eurotunnel has obtained the option to repay these notes in cash, which will benefit existing Eurotunnel shareholders.
- The hybrid notes are redeemable:
    - by using available cashflows, including those resulting from a favourable refinancing of the Senior debt, by additional debt (up to £225 million) or through a share capital increase;
    - up to 40% of the issue or otherwise in total, in each case without the requirement of consent from the holders;
    - with a 59.2% initial buy back premium, increasing by 7.5% each year. This premium, which might appear high, compensates for the fact that the consent of holders is not required to redeem the notes.
  - Those hybrid notes that have not been previously redeemed will be converted into shares on a pre-agreed date:
    - 50% after 3 years
    - 25% after 4 years
    - 25% after 5 years
  - The hybrid notes will bear interest at a rate of 6% per annum increased by an additional 3% per annum. Interest will be paid subject to available cashflow and capitalised in the event of non-payment. Where the additional 3% interest is paid, a proportional dividend will be payable to shareholders of Groupe Eurotunnel.

Graph 2:  
Allocation of available cash flows\*

\* on the basis of the 2005 Business Plan and current hypotheses



# 3

## A five-year plan which preserves as far as possible the interests of shareholders in the capital of Groupe Eurotunnel<sup>1</sup>

- The issue of hybrid notes could have a diluting impact, affecting the weight of shareholders in the Group’s capital. However, shareholders will benefit from the reduction of the debt and the continuing operational recovery of the Group, which started successfully last year.
- The theoretical level of dilution is between 0% and 87% of the capital. According to the 2005 business plan, the intention to limit the dilution to approximately 50% in five years’ time seems attainable through the combined effect of redeeming 40% of the hybrid notes and the full impact of the accretion mechanisms described below.
- **During the first three years, the current shareholders will retain 100% of the equity** in the new structure (see graph 3);
- The proposal provides for the **issue of free warrants to shareholders tendering their Units to the Exchange Offer**, which will allow them to benefit from the improvement in performance of Eurotunnel.
- These warrants will be exercisable:
  - from 2011 at a **nominal** nominal price per share of 0.01€;
  - in respect of up to **1.9 new shares per warrant**.
  - The final number of new shares to be issued upon exercise of the warrants will be calculated on the basis of the increase in the Group’s performance between 2008 and 2010 compared to the 2005 business plan.
- All these measures obtained by Eurotunnel **should restore a positive context to the share price**.

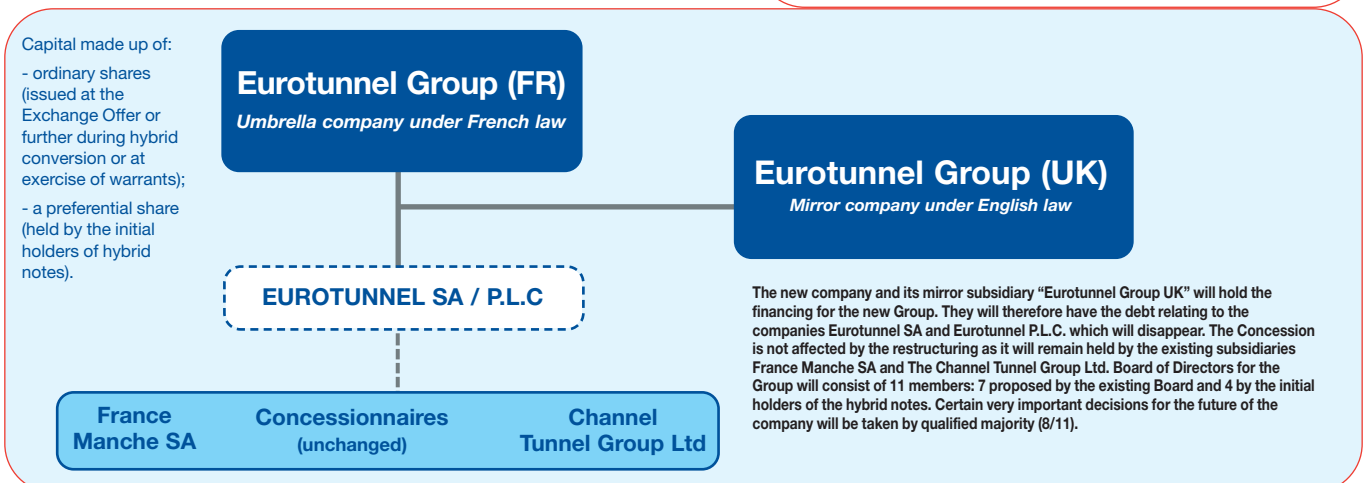
<sup>(1)</sup> The examples used are based on an acceptance level of the Exchange Offer of 100%.

# 4

## An Exchange Offer for a new departure

- An Exchange Offer will be launched in France and the UK by the new entity, Groupe Eurotunnel. The minimum acceptance level has been fixed at 60% (subject to agreement by market authorities). **This exchange offer will be the lynchpin of the restructuring.** It will be accompanied by a detailed offer document in accordance with applicable regulations at the time of its launch. As part of this offer, Eurotunnel intends to obtain a fairness opinion.
- It will be proposed to shareholders to exchange their existing Eurotunnel Units for **Groupe Eurotunnel shares and free equity warrants**. The new shares will benefit from double voting rights for shareholders who are registered for at least 2 years.
- **Shareholders who tender their units to the offer will also benefit from travel privileges** equivalent to those currently available.
- **The share capital** may be consolidated as part of or prior to the Exchange Offer on a 1:40 basis so as to **revalue the shares and limit the speculation that has surrounded the share price**.
- The new legal structure of the Group (see graph 3) does not affect the Concession which remains in the hands of the existing concessionaires France Manche SA and The Channel Tunnel Group Ltd.

Graph 3: New legal Structure of Groupe Eurotunnel





## Eurotunnel needs shareholder Support to save the Group

# 5 good reasons why it is important for you to vote !

### **1** Finally reduce the debt to a level that the Group can sustain and create a favourable context for the share price

The Group itself is highly profitable at an operating level.

At the end of June 2006, we are ahead of our business plan.

**You must reap the benefits.**

To do this we must loosen the stranglehold of the debt, free up cashflows for investment and, as soon as possible, **pay dividends**. With an **immediate and definitive debt reduction from £6.2 billion to £2.9 billion**, this can at last be contemplated.

### **2** Find an acceptable compromise between the fundamental rights of shareholders and the unavoidable rights of creditors

A confrontational stance between shareholders and creditors can only destroy value.

By voting for the plan put forward by your Joint Board, shareholders should see the company re-launch itself and creditors be partially repaid for their debt, in relation to its market value.

The hybrid notes are not debt, but quasi-equity as the part that is not redeemed or bought back will automatically convert into shares over time. The redemption or buy-back could be effected through the use of available cashflows, additional borrowing or a share capital increase **at an optimal time decided by shareholders**.

**In the new structure, the current shareholders keep all the equity for three years. They have three to five years to benefit from the Group's recovery.**

### **3** Turn our back on worst-case scenarios

Shareholders have a right to be told the truth.

Let us make no mistake: brinkmanship is illusory on both sides and it is **too late for a "wait-and-see" approach**.

We can always dream of alternative restructuring schemes, but we must be wary of restructurings that offer a false dawn:

- carry on maintaining a level of debt incompatible with the Group's resources? Let's not see the errors of 1998 repeated, with stabilisation notes and other PLN's or their equivalents in today's market;
- increase the share capital? Doing so for the benefit of the creditors would leave nothing for the historic shareholders, who have supported this great project for so long. **We owe them better than that.**

### **4** Strengthen and stabilise the Group

It is about time we draw a line under the past and turn to the future.

For the first time since inception, we are able to obtain corporate financing with new lenders. Another sign that things are starting to change: the interest shown by new investors (Goldman Sachs International, Macquarie Investment Management UK, AXA Private Equity

or others) to **consolidate our capital for the long term**, will at last allow us to develop the Group.

Within this new dynamic, the potential consolidation of the shares –as recently done by the Alstom Group– aims to **put an end to speculative trading**, which is encouraged by the current share price, and thus better defend your interests.

### **5** Finally, put the emphasis on us and develop our business

The Tunnel is one of the most heavily used railways in the world: 178 million passengers and 158 million tonnes of freight carried in 12 years of operating the Concession.

Our ambition is to:

- continue to improve our service to our customers whilst maintaining the very high level of operations;
- continue to improve our profitability;
- be an active participant in the development of rail freight between the UK and continental Europe.

**This restructuring will allow us to focus our teams and our resources on the future.**

#### Shareholder Information Centre

PO Box 302, Folkestone,  
Kent CT19 4QZ

shareholder.info@eurotunnel.com

**www.eurotunnel.com**

**08457 697 397**  
(local rate number)

**This document is a simplified presentation of the financial and legal restructuring of Eurotunnel. It is not legally binding. For a more detailed description of the restructuring, please refer to the Explanatory Note.**