

Letter to Groupe Eurotunnel SA
shareholders

Special edition



Dear shareholder,

The British and French transport ministers both confirmed to me that **the United Kingdom and France will contest the reasoned opinion** issued by European Commissioner Siim Kallas last June.

Even though, in my opinion, this was not in doubt, it is a source of great satisfaction to have this official expression of support for our business. In this instance, the States are acting in accordance with the role set out for them in the Concession: to give us the regulatory and commercial framework enabling us to do our job and to safeguard our own future.

Let us remind ourselves of the substance of the questions raised by the Commission:

- Is there a cost allocation method?
- Are the tolls too high?
- Is the Railway Usage Contract (RUC) too rigid?
- Is the IGC independent?

On matters pertaining to pricing, we commissioned a study from two independent consultants – Freshfields Bruckhaus Deringer and PwC – which we have sent to the States and the European Commission. This was an opportunity to restate some fundamental truths:

- **The Fixed Link does operate a cost allocation method.**

The principle is simple and flows from the fact that we are a BOT Concession (construction/operation) seeking a legitimate return on investment and not a public infrastructure in which the States have invested funds which will never be recovered.

Eurotunnel invested €15 billion of private funds and took on all the risks (construction and traffic). Pricing is based on a classic formula to spread the costs of construction, operation and maintenance over the duration of the Concession. This is explicitly acknowledged in Article 8.2 of European Directive 2001/14. Why should we not continue to apply it?

- **The toll is competitive.**

First of all, relative to the size of the investment, it is much lower than on adjacent networks. Secondly, it is important not to confuse the "Tunnel cost" and the price of the ticket paid by the passenger.

I would invite the reader to check the websites of both operators, Eurostar and Thalys, in which SNCF has a majority stake, to compare their prices (excluding special offers) for equivalent distances (Paris-London and Paris-Amsterdam) assuming the cost of the Tunnel to be nil (i.e. by reducing the Eurostar ticket price by €18). It appears that, taking out the Tunnel cost, Eurostar is significantly more expensive per kilometre travelled than Thalys.

Finally, our toll per passenger decreases by 1.1% each year excluding inflation. Between 2004 and 2012, Eurostar increased its ticket price by at least 4% above inflation compared to our toll which went down by 9% in the same period.

We can therefore state that our pricing is appropriate for crossing a major natural obstacle such as the English Channel. The real barriers for new entrants must be looked for elsewhere.

- **It is not possible to bypass the usage contract (RUC).**

This agreement, along with the Treaty of Canterbury and the Concession

agreement itself, is one of the three founding documents which underpin the very existence of this amazing rail motorway that is *Le Shuttle* (together with the rail tunnels which form an essential part of it) by enabling, in 1987 as in 2007, the necessary funds to be raised.

In addition, and contrary to what has been said, it does not hinder traffic growth. It applies to any railway undertaking that wishes to use our services. The long-term visibility it provides is a major asset for operators.

PwC demonstrates that if current traffic levels had been used to set the tolls instead of the overestimated forecasts from SNCF, the tolls would be three times more per passenger (6.7 times more for a tonne of freight). **Since 1994, this represents a shortfall for Eurotunnel of €3.6 billion**, to the benefit of SNCF, BRB and Eurostar.

PwC also calculated that the economic model on which the Fixed Link is built initially envisaged a return of 11.7%, altogether normal for an infrastructure that has revolutionised exchanges between Great Britain and Continental Europe and which serves 20 million people each year.

I have argued before the Authorities that changing the rules after 20 years makes no sense. If that were to be the case, Eurotunnel and its shareholders would have to be compensated. We have the decision of the arbitration tribunal of The Hague in our favour. We would like this debate to stop as soon as possible. I believe that is also what the States wish for.

And it should also be what the European Commission wishes for, such is the importance of regulatory stability preserve the attraction of the concession model and its total or partial private financing.

There remains the question of the lack of independence of the IGC. We are not talking about individuals here but the organisation and it is clear that the IGC does not meet any of the usual independence criteria. In order to bypass this issue in the claim made by Eurostar, the IGC opted to set up a working group, the binational economic committee. It is the opinion of this emanation of itself that the IGC sought on the matter of its own independence and the admissibility of the Eurostar claim. On this point, the real question is: what is one's interest to act when one has a monopoly.

We remain vigilant in all these matters without being side-tracked from our essential goals:

- To keep the Fixed Link at its best;
- To continue improving our performance;
- To welcome ever more traffic and to denounce the numerous barriers to access, which are not of our doing;
- To prepare future investments;
- To pay ever increasing dividends.

Yours faithfully,

Jacques Gounon,
Chairman and Chief Executive Officer

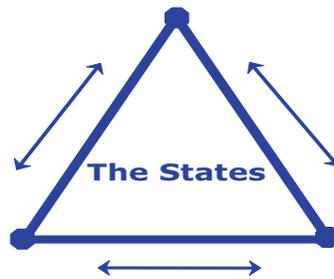
The cross-Channel Fixed Link's three cornerstones

The Treaty of Canterbury (signed by the States in 1986)

The States authorise the construction of the Fixed Link as a concession without any public financing or guarantees

The Concession Agreement (signed by the Concessionaires and the States on March 14th, 1986)

sets out Eurotunnel's rights and duties in regard to the conception, financing, construction and operation of the Fixed Link until 2086, **as well as the undertakings of the States through the IGC**, in order to facilitate the Fixed Link's operation



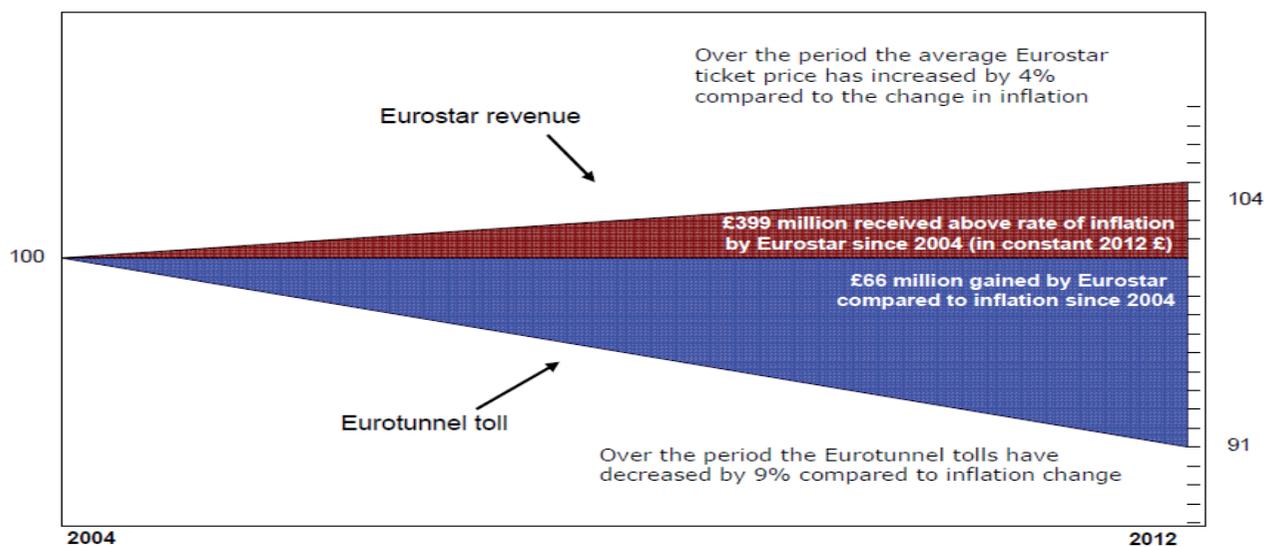
The Railway Usage Contract (RUC)

(signed by the Concessionaires and the State Railways on July 29th, 1987) sets out 1) access conditions to the infrastructure, 2) detailed charging framework on the basis of long-term costs, covering all operating costs and allowing for construction investment recovery and 3) non-discriminatory access for all railway undertakings

Shuttle operations have a totally free pricing regime

The RUC was essential to the **financing structure of the project in 1987** (a pre-requisite to the agreement of the bank syndicate) and to the **2007 financial restructuring** (any substantial change to the RUC is subject to the lenders' agreement)

Average price of Eurostar revenue per passenger compared to Eurotunnel toll – 2004 to 2012 in constant Euros (excluding MUC for the period 2004–2006)



For illustration purposes only



ShareGift is a UK share donation charity which accepts donations of shares, no matter how small, from which they generate funds to give to registered

charities.

In 2013, ShareGift received almost 300 separate donations of shares from Groupe Eurotunnel shareholders who held their shares in the form of CDIs, with a total value in excess of £15,000.

They will be using the proceeds to make donations to a large number of UK registered charities based on suggestions they have received from share donors. For more information please go to www.sharegift.org.

Spotlight

CNN International recently showed a two-part documentary on Eurotunnel. The first programme focussed on the vital link that the Channel Tunnel represents; the second deals with maintenance of rolling stock and infrastructure

Both broadcasts are still available on CNN's website. Click [here](#) to view.

Change of address?

If you hold your shares in registered form with BNP Paribas Securities Services or in the form of CDIs via Computershare Investor Services PLC, don't forget to notify any change in your personal information, in particular any change of postal or email address. Information on how to contact them is available on our website www.eurotunnelgroup.com.