# Eurotunnel on Track

July 2013

GROUPE EUROTUNNEL

*Letter to Groupe Eurotunnel SA shareholders*

*Special edition*

Dear shareholder,

**All of Eurotunnel's stakeholders** were shocked by the claim launched by Eurostar and by the opinion of the European Commission; they were unanimous in their reaction:

- A petition to the Transport Ministers, started by one of our original shareholder, received several thousand signatures within a few hours;

- Unions rallied to defend the business. Staff know from experience that any attempt to challenge the economic model of the Concession could have dramatic social consequences;

- Institutional investors and infrastructure funds offered to intervene to remind the powers that be of the basic principle according to which private investors are entitled to expect a legitimate return on their investment, in the order of 6 to 8% for an infrastructure such as the Channel Tunnel.

We will contact the European authorities to share with them these concerns and their inevitable consequences for future investments in Europe, whether for the project bonds initiative or any other finance vehicle. There is a very real risk that investments will simply desert Europe for other more welcoming environments where there are many development projects and the regulatory framework is stable and long-term.

You will find overleaf **an extract from the Network Statement** (which we publish annually since 2007) together with a table of passenger charges. It is difficult to see where the discrimination may lie (and incidentally, who would such discrimination benefit since Eurostar is the only user?) or a any lack of transparency.

We have asked the IGC to reject the complaint on the basis that Eurostar is unable to show it has suffered any specific prejudice and merely alleges speculative and hypothetical unfair treatment.

During the period of the operational and financial restructuring, between 2005 and 2007, charges actually reduced by c.25%. If Eurostar's reasoning is to be followed, new destination should have come to be serviced.

The reality is quite different: **Eurostar removed over 700 trains from their service offering between 2009 and 2012**. Even better: Eurostar claims to have been disappointed by the Olympic Games period, but during the third quarter of 2012, they ran 206 fewer trains than for the same period in 2009. Their profits, however, leapt to more than €100 million.

**How can traffic increase when the number of trains is being reduced?** It is Eurotunnel who should be complaining about a prejudice.

Our original shareholders are well aware that this prejudice dates back from the start of the project: SNCF's unrealistic traffic forecasts led to an oversized initial investment and also to an under-estimation of the necessary access charges, which Eurostar has benefited from for the past 19 years.

The real question is why Eurostar's claim has been taken up, in part, by Siim Kallas who would like to impose on us the charging framework based on marginal costs, as set out in Directive 2001/14/EC, which is applicable to infrastructure managers financed by Member States when we clearly still fall within Article 8.2 which enshrines our right to use on long-term costs to enable us in particular to finance and repay our debt (see overleaf).

**The IGC still refuses to give us access to the reasoned opinion** of the European Commission on the basis that the procedure is between the Commission and the Member States and does not involve us.

The IGC had set up a working group, the binational economic committee, which over almost a year examined our charging framework in detail without us being aware of the purpose of its research.

**We have only just discovered that this committee** also met with the European Commission to present our charging framework.

This raises some serious issues:

• We had raised objections to the provisional report of the committee, which contained many inaccuracies. However, our comments were neither taken into account nor presented to the Commission. It is thus hardly surprising that the Commission should be mistaken. There is a very apposite English expression for such a situation: "garbage in, garbage out";

• The chairman of the French part of this committee, as soon as his work was done, was appointed to the board of SNCF, Eurostar's parent company: surely this must constitute a conflict of interest?

• The committee had no legal standing to speak on behalf of the Member States: does this constitute a failure on the part of the IGC to discharge its obligations?

My intention is not to create unnecessary tensions – to the contrary – but to **protect our rights for the future**: it is undeniable that we have been unfairly "attacked" by the subsidiary of a state-owned group and, at the very least badly defended, in our absence, in front of the European Commission.

I am convinced that both the IGC and the Member States will now be keen to re-establish the truth and convince the Commission, with our active support, that the charging framework applied to railway undertakings is just and fair. As for the criticisms from Europe on the IGC's lack of independence, we believe that simple solutions can easily be found.

I therefore believe that it is possible, if all the parties concerned act in good faith, that this absurd and pointless situation can be resolved by the end of the year.

As for us, we will continue to fight to defend your interests, to expose hypocrisy and to prepare to welcome ever more customers and traffic.

Yours faithfully,

**Jacques Gounon**,
Chairman and Chief Executive Officer

# EXTRACT FROM THE EUROTUNNEL 2014 NETWORK STATEMENT

## Charging framework

In accordance with Chapter II of European Directive 2001/14/EC, Eurotunnel applies a **charging framework on a non-discriminatory basis** allowing use of the Channel Tunnel railway network.

The Network Statement charging regime results from the Treaty of Canterbury, the Fixed Link Concession Agreement and the Railway Usage Contract and fundamentally reflects the unique situation of Eurotunnel, private concessionaire, operator of an integrated road and rail transport system, permitting access by railway undertakings to an interconnection between the British and French rail networks. The access charges reflect the considerable investments (£10 billion or €14 billion in 1994 values) 100% privately financed, and remain nonetheless proportionally lower than the charges levied by neighbouring networks built with public funds.

The charging framework for access to the Channel Tunnel railway network was originally established in 1987 on non-discriminatory and transparent bases, taking into account the costs of construction and operation of the Channel Tunnel, the state of the transport market and the optimum use of the Channel Tunnel capacity, based on traffic forecasts provided by the Governments and the state railways (16.5 million passengers and 7.3 million tonnes of goods rising to 20 million passengers and 10 million tonnes). The charges published in the Network Statement have been designed to provide fair and non-discriminatory open access reflecting the charging framework of the Railway Usage Contract.

For passenger trains, the evolution of the main element of the usage charges is governed by a long-term indexation formula based on inflation minus 1.1% per annum, meaning these charges have decreased by 20% in real terms between 1994 and 2013. In addition, the charge per passenger offers a substantial reduction in access costs for the development of new services for new destinations and/or new operators, allowing a considerable saving on launch costs for new services during the sensitive phase of build-up in load factors, thus facilitating market entry for new cross-Channel services.

**Price per train and per passenger one-way** (CET) - prices are given in Sterling and Euro, and invoicing is carried out in each currency:

| *Passenger trains* | *Reservation fee per train one-way* | *Access fee per passenger one-way* |
|---|---|---|
| Intermediate period: 11:00 - 17:00 | €2,400 + £1,600 | €8.45 + £6.79 |
| Peak period: 07:00 - 11:00 and 17:00 - 23:00 | €2,640 + £1,760 | €8.45 + £6.79 |
| Off-peak period: 23:00 - 07:00 | €2,160 + £1,440 | €8.45 + £6.79 |
| Maintenance period | €3,600 + £2,400 | €8.45 + £6.79 |

*€/£ as at January 2009*

## Extract from the European Directive 2001/14/EC

**The Channel Tunnel, with construction costs close to €14 billion, was entirely financed by private funding with absolutely no contribution from the Member States or tax payers**. The charging framework put in place in a long-term contract signed in 1987 (Railway Usage Contract or RUC) between the state-owned railway networks (SNCF and BRB) and Eurotunnel is an essential element of the financing of the Channel Tunnel.

**The European Commission's reasoning is based on the tradition framework for public financing of public railway infrastructures in Europe** for which the charging principle is that of the marginal cost or direct cost, i.e. the charge should enable the variable costs resulting from the train using the infrastructure to be recovered. In return for this charging mechanism, European law provides that Member States must ensure by way of **state funding** the balancing of the accounts of the infrastructure manager. This model is totally inappropriate for a private infrastructure such as the Channel Tunnel, for whom the charging framework must enable the recovery of all the costs associated with the construction of the infrastructure, including the reasonable remuneration of investors.

Article 8 of the Directive 2001/14/EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification provides exceptions to the charging principles:

*"1. In order to obtain full recovery of the costs incurred by the infrastructure manager a Member State may, if the market can bear this, levy mark-ups on the basis of efficient, transparent and non-discriminatory principles, while guaranteeing optimum competitiveness in particular of international rail freight. The charging system shall respect the productivity increases achieved by railway undertakings.*

*The level of charges must not, however, exclude the use of infrastructure by market segments which can pay at least the cost that is directly incurred as a result of operating the railway service, plus a rate of return which the market can bear.*

*2. For specific investment projects, in the future, or that have been completed not more than 15 years before the entry into force of this Directive, the infrastructure manager may set or continue to set higher charges on the basis of the long-term costs of such projects if they increase efficiency and/or cost-effectiveness and could not otherwise be or have been undertaken. Such a charging arrangement may also incorporate agreements on the sharing of the risk associated with new investments."*

**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.