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Eurotunnel Holding S.A.S

Statutory auditors' report on the "consolidated accounting statements"

For the year ended 31 December 2019
Eurotunnel Holding S.A.S
3, rue La Boétie - 75008 Paris
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Eurotunnel Holding S.A.S

Registered office: 3, rue La Boétie - 75008 Paris
Share capital: €.508 620 865

Statutory auditors' report on the "consolidated accounting statements"

For the year ended 31 December 2019

To the Chairman of Eurotunnel Holding S.A.S,

In our capacity as statutory auditors of Eurotunnel Holding S.A.S and in accordance with your request in connection with the Permanent Facility Agreement amended on 13 April 2018, we have audited the "consolidated accounting statements" of Eurotunnel Holding S.A.S. They include the consolidated income statement, the consolidated financial position and the consolidated cash flows statement for the year ended 31 December 2019 as explained in note C.1 to the accompanying consolidated accounting statements.

Management is responsible for the preparation and fair presentation of the "consolidated accounting statements". Inasmuch as they were not intended for the sole shareholder, they were not subject to approval by the Chairman of the Company. The "consolidated accounting statements" have been prepared in the context of the evolving environment of the Covid-19 pandemic. Our responsibility is to express an opinion on these "consolidated accounting statements" based on our audit.

We conducted our audit in accordance with professional standards applicable in France and the professional doctrine of the French national auditing body (Compagnie nationale des commissaires aux comptes) related to this engagement; these standards require that we plan and perform the audit to obtain reasonable assurance about whether the "consolidated accounting statements" are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the "accounting statements". An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the "consolidated accounting statements". We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the "consolidated accounting statements" have been prepared in all material aspects in accordance with the accounting and valuation principles described in the accompanying Explanatory note.

Without qualifying our opinion, we draw your attention to the paragraph "General Principles" of the Explanatory Note that explains how the "consolidated accounting statements" have been prepared and that the "consolidated accounting statements" do not constitute a complete set of financial statements prepared in accordance with the IFRS accounting principles. According to the IFRS as adopted by the European Union, only a complete set of financial statements (including a statement of financial position, statements of profit and losses, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information) can present fairly, in all material respects, the financial position of the Company and its financial performance.

Paris La Défense, 29 April 2020

KPMG Audit
A division of KPMG S.A.

Philippe Cherqui
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Philippe Cherqui
Partner

Courbevoie, 29 April 2020

Mazars

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Francisco Sanchez
Partner

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EUROTUNNEL HOLDING SAS
CONSOLIDATED ACCOUNTING STATEMENTS
FOR THE
YEAR ENDED
31 DECEMBER 2019

Contents

INTRODUCTION

This document has been prepared in order to meet the requirements under clause 23 of the Permanent Facility Agreement dated 20 March 2007 as amended on 13 April 2018. These accounting statements consolidate the accounts of Getlink SE's sub-group (the "Eurotunnel Group") which consists of Eurotunnel Holding SAS and its subsidiaries, including most notably The Channel Tunnel Group Limited (CTG) and France Manche SA, concessionaires of the Fixed Link and holders of the Term Loan.

These accounting statements cover the same scope of consolidation as the "Eurotunnel" segment in the Getlink Group's consolidated reporting and have been prepared on the same basis as the Getlink Group's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union at 31 December 2019.

The Eurotunnel Group was created following the Getlink Group's internal corporate reorganisation in April 2018. To ensure a meaningful and comparable set of accounts, the income statement and the cash flow statement for the 2018 financial year have been prepared as if the new organisation had been in place before 1 January 2018.

SUMMARY CONSOLIDATED ACCOUNTING STATEMENTS

Income statement

€'000	31 December 2019	31 December 2018
Exchange rate €/£	1.140	1.128
Revenue	957,609	955,986
Operating expenses *	(214,860)	(212,278)
Employee benefits expense	(187,930)	(179,083)
Operating margin (EBITDA)	**554,819**	**564,625**
Depreciation	(157,896)	(151,425)
Trading profit	**396,923**	**413,200**
Other operating income	38,001	917
Other operating expenses	(4,299)	(1,013)
Operating profit	**430,625**	**413,104**
Finance income	9,711	11,473
Finance costs	(271,120)	(291,129)
Net finance costs	(261,409)	(279,656)
Other financial income	4,021	6,923
Other financial charges	(30,909)	(4,970)
Pre-tax profit	**142,328**	**135,401**
Income tax expense	(18,192)	(9,617)
Net profit for the period	**124,136**	**125,784**

* *Operating expenses include €2,261,000 in 2019 (2018: €5,250,000) invoiced by Eurotunnel to ElecLink relating to the interconnector construction project which was eliminated on consolidation in the Getlink Group accounts.*

Statement of financial position

€'000	31 December 2019	31 December 2018
Exchange rate €/£	1.175	1.118
ASSETS		
Intangible assets	3,879	2,055
Concession property, plant and equipment	5,872,657	5,928,076
Other property, plant and equipment	1	4
Total property, plant and equipment (tangible and intangible)	**5,876,537**	**5,930,135**
Deferred tax asset	468,448	485,223
Other financial assets: external	21	257
Other financial assets: intragroup	320,829	314,687
Total non-current assets	**6,665,835**	**6,730,302**
Trade receivables: external	57,944	76,211
Trade receivables: intragroup	5,810	24,134
Other receivables: external	65,133	38,026
Other receivables: intragroup	771,794	762,590
Cash and cash equivalents	221,194	205,533
Total current assets	**1,121,875**	**1,106,494**
Total assets	**7,787,710**	**7,836,796**
EQUITY AND LIABILITIES		
Issued share capital	508,621	508,621
Share premium account	894,718	894,718
Other reserves	(1,229,761)	(958,108)
Profit for the period	124,136	125,784
Cumulative translation reserve	226,306	312,740
Total equity	**524,020**	**883,755**
Retirement benefit obligations	95,331	84,811
Financial liabilities: external	4,308,247	4,217,049
Financial liabilities: intragroup	1,530,133	1,597,122
Other financial liabilities	34,137	37,322
Interest rate derivatives	1,054,999	748,398
Total non-current liabilities	**7,022,847**	**6,684,702**
Provisions	1,364	2,527
Financial liabilities	59,581	54,565
Other financial liabilities: external	7,768	7,605
Other financial liabilities: intragroup	16,937	9,564
Trade payables: external	120,347	136,374
Trade payables: intragroup	1,029	21,579
Other payables: external	33,725	36,123
Other payables: intragroup	92	2
Total current liabilities	**240,843**	**268,339**
Total equity and liabilities	**7,787,710**	**7,836,796**

Intragroup comprises fellow Getlink Group entities not part of the Eurotunnel Group.

Cash flow statement

€'000	31 December 2019	31 December 2018
Exchange rate €/£	1.175	1.118
Operating margin (EBITDA)	554,819	564,625
Exchange adjustment *	(2,050)	(2,873)
Increase in working capital	19,496	17,271
Net cash inflow from trading	572,265	579,023
Other operating cash flows received	7,635	11
Net cash outflow from taxation	(7,425)	(3,635)
Net cash inflow from operating activities	**572,475**	**575,399**
Payments to acquire property, plant and equipment	(102,025)	(72,409)
Sale of property, plant and equipment	370	6
Sale of subsidiary - CIFFCO	–	8,693
Net cash outflow from investing activities	**(101,655)**	**(63,710)**
Dividend paid to Getlink SE	(143,214)	(111,897)
Fees paid on loans	(6,319)	(6,174)
SPV Noteholder ongoing fee	(957)	(911)
Interest paid on external loans (CLEF)	(168,748)	(165,485)
Interest paid on loans to GET pre-reorganisation	–	(11,620)
Interest paid on loans (Vendor Loan ETH/GET)	(14,642)	(10,549)
Interest received on loans (Funding Loan CTG/GET)	7,737	9,839
Interest paid and repayments on rental contracts	(2,077)	(1,165)
Scheduled repayment of loans	(51,386)	(62,352)
Movement in intercompany loans with GET	(85,199)	(346,804)
Interest received on cash and cash equivalents	2,249	1,574
Exceptional financial revenue - Cheriton 16	–	811
Net cash outflow from financing activities	**(462,556)**	**(704,733)**
Increase / (decrease) in cash in period	**8,264**	**(193,044)**

** The adjustment relates to the restatement of elements of the income statement at the exchange rate ruling at the period end.*

Notes to the accounting statements

Eurotunnel Holding SAS (ETH) is a private simplified joint stock company (*Société par Actions Simplifiée*, SAS) registered in France on 21 December 2016 which has been a wholly-owned subsidiary of Getlink SE since April 2018. ETH is the holding company of France Manche SA (FM) and The Channel Tunnel Group Ltd (CTG) (the concessionaires of the Channel Tunnel under the Concession Agreement dated 14 March 1986) and other subsidiaries as set out in note B below. ETH's accounts are fully consolidated in the consolidated accounts of Getlink SE. References to the "Eurotunnel Group" in this document relates to the Eurotunnel Holding SAS and all its subsidiaries. References to the "Getlink Group" in this document relates to the Getlink SE and all its subsidiaries.

The main activities of the Eurotunnel Group are the design, financing, construction and operation of the Fixed Link's infrastructure and transport system in accordance with the terms of the Concession which will expire in 2086. ETH has as its object the holding and the management of all participations and all interests in all companies and groups of French and foreign law, and more generally, all operations of any nature, legal, economic and financial, civil or commercial, related to the object indicated above.

A. Important events

A.1 Brexit: the United Kingdom's exit from the European Union

Following the UK's decision to leave the European Union on 23 June 2016 and the triggering of Article 50 by the British government at the end of March 2017, the official date of exit of the United Kingdom from the European Union initially set at 29 March 2019 was initially postponed to 31 October 2019 and finally took place on 31 January 2020. The exit of the United Kingdom from the European Union at the end of January 2020 will be followed by a transition period ending, at the earliest, on 31 December 2020. In this context, uncertainties remain regarding the commercial agreements that will concluded between the United Kingdom and the European Union.

The Group has seen the impact of this situation on its business in 2019, with the Truck market affected twice by stockpiling then destocking actions in the United Kingdom and by a certain hesitation to travel on the part of its Passenger customers. This situation was exacerbated by the actions taken by French customs officials between March and May 2019, then by strikes in France in December 2019.

During the period, the Group continued to implement its action and investment plan launched in mid-2018 and designed to maintain the fluidity of its traffic post-Brexit, whatever the political or regulatory situation may be. The successive postponements of the official exit date from the United Kingdom have had no significant impact on this plan, which remains in force.

This context has been taken into account by the Group when assessing the main estimations and assumptions used for the consolidated accounts as at 31 December 2019, as mentioned in note B.2.

A.2 Settlement agreement with the British government

On 28 February 2019, the Group concluded a settlement agreement with the British Secretary for State for Transport which put an end to the legal action started by the Group following the British government's award at the end of 2018 of capacity contracts to three ferry companies as part of its preparations for a Brexit on 29 March 2019. Under the terms of this agreement, the Group agreed to withdraw its claims in return for the payment by the British government of £33 million (€38 million) spread in three equal instalments over a period of three years. In 2019, the Eurotunnel Group thus received £11 million (€13 million) in respect of the first instalment paid under this agreement. The agreement also confirms that the Group will carry out some investments on its sites.

On 25 May 2019, the company P&O filed a claim against the British government in respect of the settlement agreement concluded with the Group. On 4 November 2019, P&O fully and irrevocably withdrew its claims without financial consideration.

In this context, the Eurotunnel Group has recorded £33 million (€38 million) in "Other operating income" in its 2019 consolidated income statement in respect of this agreement.

B. Post closing events

On 16 March 2020, the French government enacted strict provisions relating to the COVID-19 epidemic currently occurring in Europe and the UK government announced similar measures with effect from 23 March 2020.

In this context, the Company and the Group to which it belongs are fully mobilised to maintain their core activities in the context of this health crisis. In particular, the Company has committed to implementing measures and actions deemed the most appropriate and necessary in order to continue its activities in compliance with the decisions of the authorities.

This subsequent event, which is not directly related to a situation existing at the end of the 2019 financial year, has no impact on the financial statements at 31 December 2019. However, uncertainty persists as to the duration of the epidemic and its impact on the Company, which will be determined as the situation evolves.

C. Principles of preparation, main accounting policies and methods

These consolidated accounts consist of the consolidation of the accounts of Eurotunnel Holding SAS and its subsidiaries. The accounting periods of the Eurotunnel Group companies run from 1 January to 31 December.

C.1 General principles

The consolidated accounting statements (the income statement, the statement of financial position and the cash flow statement) have been prepared in accordance with the valuation and accounting principles described in the accompanying explanatory notes and the notes to the consolidated financial statements of Getlink SE for the year ending 31 December 2019[1].

The consolidated accounting statements are prepared in the specific context of the Amended Permanent Facility Agreement. They do not constitute a complete set of financial statements prepared in accordance with the IFRS accounting principles.

The Eurotunnel Group was created following the Getlink Group's internal corporate reorganisation in April 2018. To ensure a meaningful and comparable set of accounts, the income statement and the cash flow statement for the 2018[2] financial year have been prepared as if the new organisation had been in place before 1 January 2018.

The Eurotunnel Group has control over the nature and price of the services it provides, and therefore does not meet the criteria set out in IFRIC 12 relating to concession contracts.

The texts adopted by the European Union, the application of which is compulsory for financial years beginning on or after 1 January 2019, are as follows:

- amendments to IFRS 9 "Financial Instruments: Prepayment features with negative compensation";
- IFRS 16 "Leases" which the Group had already applied early in its consolidated financial statements;
- Interpretation IFRIC 23 "Uncertainty over Income Tax Treatments";
- amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"; and
- amendments to IAS 19 "Plan Amendment, Curtailment or Settlement".

The application of other texts mandatory for financial years beginning on 1 January 2019 has not had a significant impact on the Eurotunnel Group's consolidated accounts.

The following texts concerning accounting rules and methods have not yet been approved by the European Union:

- amendments to IAS 1 and IAS 8 "Definition of Material";
- IFRS 17 "Insurance Contracts";
- IFRS 14 "Regulatory Deferral Accounts";
- amendments to IFRS 10 and IAS 28 "Sales or contributions of assets between an investor and its associate/joint venture";
- amendments to IFRS 3 "Definition of a Business"; and
- amendments to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform".

The potential impact of these other texts will be assessed by the Eurotunnel Group in subsequent years.

C.2 Basis of preparation

Conversion of foreign currency transactions

Transactions in foreign currencies are converted into the reporting currency of each individual company at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies other than those mentioned below are translated at the rate ruling at the end of the reporting period. Exchange differences are dealt with in the income statement.

Exchange rates for consolidated entities

The Eurotunnel Group consolidated accounts are prepared in euros.

The accounts of the Eurotunnel Group's British subsidiaries, and notably CTG and its subsidiaries, are prepared in sterling and are converted into euros as follows:

- Retained reserves brought forward and Concession property, plant and equipment and related depreciation, at historical rates[3].
- All other assets and liabilities at the rate ruling at the end of the reporting period.

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1 *Except for some accounting treatments elected in the specific case of the first-time preparation of ETH consolidated accounts and the corporate reorganisation (common control transaction) and the specific context of the Amended Permanent Facility Agreement.*

2 *For the net cash in/outflows outside Getlink Group.*

3 *In the specific context of the preparation of the consolidated accounting statements of ETH for the purposes of the Permanent Facility Agreement, the historical rates used are the same as those used for the preparation of the consolidated financial statements of the Getlink Group.*

- Income statement items, except for the Concessionaires' depreciation, at the average rate for the year.
- Exchange differences arising from the application of the above are included in the cumulative translation reserve in the statement of financial position.
- The closing and average €/£ exchange rates for 2019 and 2018 are as follows:

€/£	2019	2018
Closing rate	1.175	1.118
Average rate	1.140	1.128

Use of estimates and judgements

The preparation of the consolidated financial statements requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the period. The valuations and estimates are periodically reviewed based on experience and various other factors considered relevant for the determination of reasonable and appropriate estimates of the assets' and liabilities' carrying value. In addition, the estimates underlying the preparation of these annual financial statements as at 31 December 2019 have been established in the context of the uncertainties concerning the final terms and conditions for the implementation of Brexit. Depending on the evolution of these assumptions, actual results may differ from current estimates.

The use of estimations by the Eurotunnel Group concerns mainly the valuation of intangible and tangible property, plant and equipment, the evaluation of its deferred tax situation, the valuation of the its retirement liabilities and certain elements of the valuation of financial assets and liabilities.

D. Scope of consolidation

D.1 Accounting policies

Global integration

The accounts of entities under the Eurotunnel Group's direct or indirect control are included in the consolidated financial statements using the full consolidation method. Control of an entity is deemed to exist when the Eurotunnel Group:

- holds power over the entity,
- is exposed to, or entitled to, variable returns due to its involvement with the entity, and
- has the ability to exercise its power over the relevant activities of the entity in order to affect the amount of returns it obtains.

All significant transactions between the consolidated subsidiaries are eliminated, as are the Eurotunnel Group's internal results (capital gains, profits on inventories, dividends).

The results of acquired subsidiaries are consolidated from the date on which control is exercised. Companies acquired or incorporated during the period are consolidated from the date of acquisition or incorporation.

In the specific case of the preparation of the Eurotunnel Group's first consolidated accounts in 2018 and to ensure a meaningful and comparable set of accounts, the 2018 income statement has been prepared as if the new organisation had been in place at 1 January 2018.

Business combinations

Business combinations are recorded in accordance with the acquisition accounting method as set out in the revised IFRS 3. Under this method, the assets acquired and liabilities and contingent liabilities assumed are recorded at fair value.

When a business is acquired in stages, the Group's previously held interest in the business acquired is revalued to fair value through profit or loss at the time of full acquisition. For the determination of goodwill at the date of control, the fair value of the consideration transferred (for example the price paid) is increased by the fair value of the interest previously held by the Group.

Costs directly attributable to acquisition transactions are recognised in the operating result for the year.

In the specific case of the corporate internal reorganisation within the Getlink Group, that meets the definition of a common control transaction, ETH elected for book value accounting in 2018 for the preparation of its consolidated accounting statements.

D.2 List of consolidated companies

The Eurotunnel Group was created following the Getlink group's internal corporate reorganisation in April 2018.

For the purposes of this consolidation, the Eurotunnel Group comprises the following companies at 31 December 2018 and 31 December 2019:

	Country of registration or incorporation	Consolidation method	31 December 2019		31 December 2018	
			% interest	% control	% interest	% control
Eurotunnel segment						
Eurotunnel Holding SAS	France	FC	100	100	100	100
France Manche SA (FM, the French Concessionaire)	France	FC	100	100	100	100
The Channel Tunnel Group Limited (CTG, the British Concessionaire)	England	FC	100	100	100	100
Eurotunnel Financial Services Limited	England	FC	100	100	100	100
Eurotunnel SE	Belgium	FC	100	100	100	100
Eurotunnel Services GIE (ESGIE)	France	FC	99	99	99	99
Eurotunnel Services Limited (ESL)	England	FC	100	100	100	100
Gamond Insurance Company Limited (GICL)	Guernsey	FC	100	100	100	100
Companies with no significant activity during 2019						
Eurotunnel Finance Limited (EFL)	England	FC	100	100	100	100
Eurotunnel Trustees Limited (ETRL)	England	FC	100	100	100	100
EurotunnelPlus Limited	England	FC	100	100	100	100
EurotunnelPlus GmbH*	Germany	FC	100	100	100	100

* *EurotunnelPlus GmbH is in the process of being wound up.*

E. Operating data

Revenue

Sales are recognised in revenue when the service is delivered.

- For the Truck Shuttle activity, revenue is recognised when the crossing has been made.
- For the Passenger Shuttle activity:
  - when the reservation is made, the tickets are recorded in "deferred income",
  - then the revenue is recognised when the crossing has been made.
- For the Railway Network passenger and rail freight tolls, revenue is recognised when the crossing has been made. For the Railway Network's annual fixed charges and contributions to its operating and investment costs, revenue is recognised as a function of the Fixed Link's availability.

EBITDA/operating margin

EBITDA (or operating margin) as used by the Eurotunnel Group is calculated by adding back depreciation charges to the trading profit.

Other operating income and (expenses)

Distinction between the trading result and the operating result

The Eurotunnel Group considers that it is helpful to include an additional result line in the presentation of its income statement within the operating result, in order to understand better its financial performance. This line is called the "trading result", and excludes income or charges which are non-recurrent in terms of their frequency and nature and for which the amount is significant. The Eurotunnel Group therefore applies recommendation number 2013-03 of the French national authority for accounting standards, the Autorité des Normes Comptables.

Trade and other receivables

Trade and other receivables are included in the category "Financial assets measured at amortised cost".

For trade receivables, receivables with a proven risk and considered doubtful are subject to an impairment loss determined on the basis of the estimated recoverable amount.

In accordance with the provisions of IFRS 9, receivables that do not present a proven risk are subject to an impairment calculation for expected impairment losses. In accordance with the provisions of IFRS 9, the Eurotunnel Group has adopted the simplified approach for trade receivables. Impairment losses are estimated using an impairment matrix based on historical default rates of receivables over their lifetime.

Provisions

Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when the related future cash flows can be reliably estimated.

F. Personnel expenses and benefits

Retirement benefits

The Eurotunnel Group provides for its legal and contractual obligations for retirement indemnities of employees under French contracts, and for the defined benefit retirement schemes of employees under UK contracts operated by CTG and ESL. The liability for defined benefits, recorded in the statement of financial position, is the present value of the obligation under defined benefit plans at the end of the financial year less the fair value of plan assets. These liabilities are valued using the actuarial method of projected unit of credit on the basis of actuarial valuations made at the end of each financial year. The current service cost of the period and the interest on the obligation are accounted for in the "staff benefit expense" line of the consolidated income statement. Valuation of the liability for defined benefit plans in respect of (i) actuarial gains and losses, (ii) the actual return on plan assets and (iii) changes in the effect of the asset ceiling benefits are recognised in the consolidated statement of other comprehensive income.

Share-based payments

Share options are accounted for in accordance with IFRS 2. The options are valued at their fair value at the date on which they are granted (see next paragraph) and any variations in value occurring after the grant date are not taken into account. The value is charged to employee benefits expense on a straight-line basis between the date of the grant and the maturity date (the vesting period), with an equal and opposite entry directly to equity.

Measurement of fair value

The fair value of stock option plans is measured by applying the binomial Black & Scholes model and the Monte Carlo approach. The basis of calculation includes the share price on the grant date, the exercise price of the options, expected volatility of the underlying shares, expected period before exercise, expected dividends and share yield, and the expected turnover of beneficiaries. Performance conditions which are not related to the market are not included in the fair value measurement.

G. Intangible and tangible property, plant and equipment

Goodwill and intangible assets (except for common control transaction accounted for on the basis of the book value)

Goodwill represents the excess of the acquisition cost over the fair value of the acquired portion of identifiable assets, liabilities and contingent liabilities. It is measured in the functional currency of the acquired entity and is recognised in the statement of financial position.

When the share of the fair value of the acquired assets, liabilities and contingent liabilities exceeds the cost of acquisition, a negative goodwill is recognised immediately in the income statement.

The fair value of intangible assets acquired following a business combination is measured using the present value of forecast future cash flows after taxation generated by the assets concerned. The method of depreciation of these intangible assets is determined according to the nature of the assets concerned.

With effect from 1 January 2018, intangible assets includes leasing contract obligations following the application of IFRS 16.

Tangible property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Property, plant and equipment is depreciated on a systematic basis in order to write down the costs of assets over their expected useful lives as follows:

Tunnels	Concession *
Land, construction, fixtures and fittings	
Terminals and related land:	
Freehold land	not depreciated
Concession land	Concession *
Landscaping	5 to 57 years
Terminals	5 years to life of Concession *
Fixed equipment and machinery:	
Fixed equipment	5 years to life of Concession *
Fixtures and fittings	5 to 57 years
Buildings	5 to 30 years
Machinery and other equipment	5 to 30 years
Industrial equipment	
Rolling stock	
Vehicles	5 to 60 years
Parts	5 to 40 years
Office equipment:	
Office equipment	3 to 10 years
IT equipment	3 to 10 years
Software	3 to 20 years

* *The Concession expires in 2086.*

The expected useful lives of the assets are kept under review and revised when necessary, according to experience.

Concession property, plant and equipment whose useful life is greater than the duration of the Concession, is depreciated over the life of the Concession on a straight-line basis. Depreciation on assets whose useful life is less than the duration of the Concession ("renewable assets") is calculated on a straight-line basis.

As all property, plant and equipment will be written down to €nil at the end of the Concession in 2086, depreciation of the final renewal cost of renewable assets will be based on the residual duration of the Concession.

Subsidies on capital expenditure received during the year have been allocated to the asset to which they relate.

Impairment of property, plant and equipment

In accordance with IAS 36, the carrying amounts of assets and groups of assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication of impairment exists, an impairment test is carried out: the net book value of the asset is compared to its recoverable amount. The recoverable amount of assets is the greater of their market value and their value in use. The market value is determined by reference to studies carried out by independent experts. The value in use is calculated by discounting operating cash flows after taxation and capital expenditure incurred to replace assets as forecast in the business plan as validated by the Eurotunnel Group's management as part of its operational management. The period covered by the business plan is five years. For Concession assets, cash flows are extrapolated on the basis of an assumption of growth over the residual duration of the Concession. The discount rate retained is the WACC calculated at each year end. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses on property, plant and equipment and intangible assets (excluding goodwill) may be reversed subsequently if the recoverable amount becomes higher than the carrying amount, up to the amount of the impairment loss initially recognised less any additional depreciation or amortisation that would have been recognised had no impairment loss been recognised.

H. Financing and financial instruments

Financial instruments

Financial assets

Classification and evaluation

In accordance with IFRS 9, financial assets are classified as financial assets at amortised cost, fair value through equity or at fair value through profit or loss depending on the nature of the instrument (debt or equity), characteristics of their contractual flows and how the entity manages its financial instruments (business model).

The business model of the entity represents the way in which financial assets are managed to generate cash flow. The exercise of judgment is necessary to appreciate the business model.

A financial asset is said to be "basic" if the contractual terms of the financial asset give rise, on specified dates, to cash flows corresponding solely to repayments of principal and interest calculated on the capital remaining due. The determination of the basic character is to be carried out for each financial asset, debt instrument, when it is initially recognised.

i. Debt instruments measured at amortised cost

A debt instrument is measured at amortised cost if it satisfies both of the following conditions:

- the asset is held as part of a business model for the purpose of collecting contractual cash flows, and
- the contractual terms of the financial asset define the latter as basic (SPPI) within the meaning of the standard.

Debt instruments at amortised cost are initially measured at fair value and then at amortised cost using the effective interest rate method. For short-term receivables with no stated interest rate, the fair value is treated as the amount of the invoice unless the interest rate has a significant impact.

Income accrued or acquired on debt instruments is recorded under "Finance income" using the effective interest rate method.

These instruments are subject to the IFRS 9 requirements for impairment.

Trade receivables fall into this category.

ii. Debt instruments measured at fair value through equity

A debt instrument is measured at fair value through equity only if it meets both of the following conditions:

- the asset is held as part of a business model whose objective is both the collection of contractual cash flows and the sale of financial assets, and
- the contractual terms of the financial asset define the latter as basic (SPPI) within the meaning of the standard.

Debt instruments at fair value through equity are initially recognised at fair value plus transaction costs. At the balance sheet date, they are measured at their fair value and changes in fair value are recorded in gains and losses recognised directly in equity (recyclable in profit or loss). The assets in foreign currencies being monetary, fair value for the currency component affects the result.

Income accrued or acquired on debt instruments is recorded under "Finance income" using the effective interest rate method.

These instruments are subject to the IFRS 9 requirements for impairment.

The Eurotunnel Group does not hold debt instruments at fair value through equity.

iii. Equity instruments measured at fair value through equity

Equity instruments are recorded at fair value through profit or loss, except in the case of an irrevocable option for fair value measurement through non-recyclable equity (provided these instruments are not held for trading) without subsequent reclassification in profit or loss.

Equity instruments at fair value through equity are initially recognised at fair value plus transaction costs. Unrealised and realised impairment losses remain recognised in equity without ever affecting the result. These financial assets are not impaired. In the event of a sale, changes in fair value are not transferred to profit but directly to the consolidated reserves in equity. Only dividends affect the result if they correspond to a return on the investment. They are recorded under "Finance income". The fair value corresponds, for quoted securities, to a market price. For unlisted securities, it is determined by reference to recent transactions or by valuation techniques that incorporate reliable and observable market data.

The Eurotunnel Group does not hold equity instruments at fair value through equity.

iv. Financial assets measured at fair value through profit or loss

All other financial assets are classified at fair value through profit or loss. These financial assets include financial assets held for trading, financial assets designated at fair value through profit or loss and non-basic assets. These assets are measured at fair value with changes in value recorded in profit or loss.

This category also includes derivative financial instruments (positive fair values).

When classified as current assets in cash equivalents, financial assets at fair value through profit or loss include, in particular, units of cash UCITS.

Impairment

Pursuant to the provisions of IFRS 9, financial instruments measured at amortised cost and debt instruments at fair value through equity are recognised, as at the date of first recognition, as a write-down for expected credit losses (Expected Credit Losses or ECL). Where the financial assets concerned have not been subject to objective indications of individual impairment losses, the depreciation for expected credit losses is evaluated on the basis of historical losses and reasonable and justifiable forecasts of future cash flows.

Financial instruments are divided into three categories according to the deterioration in credit risk observed since their initial recognition: S1 (no significant increase in credit risk), S2 (significant increase in credit risk) and S3 (credit risk proven). Each credit category has a specific credit risk assessment method: expected credit losses at 1 year for outstanding S1, credit losses expected at maturity for outstanding amounts of S2 and S3.

With regard to impairment, IFRS 9 provides for the possibility of adopting a simplified approach for trade receivables: impairment losses are determined on the basis of the expected loss at maturity and do not require monitoring of changes in the credit quality category of the receivable. The Eurotunnel Group has adopted the simplified approach for trade receivables. Impairment losses are estimated based on an impairment matrix based on historical credit default rates over the expected life of the receivables.

Financial liabilities

Financial liabilities include, in accordance with IFRS 9:

i. *Borrowings*

Borrowings are recognised initially at fair value less transaction costs, and subsequently at amortised cost according to the effective interest rate method.

For financial liabilities that are at a fixed interest rate, interest costs are recognised at a constant interest rate until maturity of the debt using the effective interest rate method. The effective interest rate is the rate that exactly discounts all of the contractual cash flows due on the debt until its maturity. These cash flows are calculated on the basis of the estimated cash flows due on each instrument constituting the debt. The calculation takes into account the transaction related costs and all other premiums and discounts.

For financial liabilities that are at a variable interest rate, cash flows are periodically re-estimated to reflect changes in market interest rates, thereby changing the effective interest rate.

For financial liabilities that are at a fixed interest rate indexed to inflation, cash flows are periodically re-estimated to take account of actual fluctuations in the inflation rate, thereby changing the effective interest rate.

A substantial change in the terms of all or part of an existing financial liability is accounted for as an extinguishment of the original liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% of the discounted present value of the remaining cash flows of the original financial liability. If a modification of terms is accounted for as an extinguishment, any costs or unamortised fees are recognised in the income statement on the extinguishment. The amendment to IFRS 9 of 12 October 2017 clarified the treatment under IFRS 9 of changes in liabilities recognised at amortised cost, in the event that the change does not result in derecognition: the gain or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate should be recorded in profit or loss.

ii. *Interest rate hedging instruments*

All the derivative instruments are designed to hedge exposure to interest rate risk. They are measured at market value and are used as cash flow hedges.

Cash flow hedges: the derivative instruments designed to hedge the floating rate element of the debt are accounted for as cash flow hedges. The portion of the gains and losses arising from changes in the fair value that is deemed to be an effective hedge is taken directly to equity until the underlying transaction is recognised in the Group's financial statements. The portion deemed ineffective is accounted for in the income statement for the period. The gains and losses included in equity are recycled to the income statement in the period when the hedged item affects the income statement. The interest rate hedging instruments meet the criteria set out in IFRS 9 and are therefore accounted for as cash flow hedges.

Net gains or net losses on each category of financial instrument

Interest income and charges recognised in profit or loss include:

- Interest on the financial assets and liabilities accounted for at amortised cost and at fair value through equity (debt instruments) using the effective interest rate method. The calculation of the effective interest rate includes all commissions and margins payable or receivable between the contracting parties which are an integral part of the effective interest rate, and all transaction costs and all other premiums and discounts. The transaction costs are the marginal costs directly attributable to the acquisition, issue or disposal of a financial asset or liability.
- Changes in the fair value of derivatives categorised as hedges (for the ineffective portion).

Measurement of fair value

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities less than or equal to three months from date of acquisition which do not carry a significant risk of variation in value and which are used by the Group to manage short term commitments. Money market funds are evaluated at their market value at the end of the reporting period.

Financial instruments

Financial assets accounted for at their fair value are classified in accordance with the following levels of fair value:

- Level 1: fair value using quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2: fair value using data ("inputs") other than quoted prices included in level 1, which are observable for the asset or liability, either directly (in the form of price) or indirectly (determined from the price).
- Level 3: fair value from valuation techniques which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiples basis for non-quoted securities.

Derivative instruments

The fair value of hedging instruments is measured by discounting contractual future cash flows and integrating the credit risk (CVA) or the counterparty risk (DVA).

I. Income tax expense

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Additional tax payable on the distribution of dividends is accounted for when the dividends are recognised as a liability.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities, for financial reporting purposes and the amounts used for taxation purposes, except as provided by IAS 12 "Income Taxes".

The tax rates used are those in effect at the end of the reporting period.

Net deferred tax is determined at the level of each tax group.