**KPMG Audit**
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

**Mazars**
61, rue Henri Regnault
92400 Courbevoie
France

# Eurotunnel Holding S.A.S.

## *Statutory auditors' report on the "consolidated accounting statements"*

For the year ended 31 December 2020
Eurotunnel Holding S.A.S.
3, rue La Boétie - 75008 Paris
*This report contains 18 pages*
*Reference : PhC-212-15*

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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 2020

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 2020 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, 9 April 2021

KPMG Audit
_A division of KPMG S.A._

Philippe Cherqui
_Partner_

Courbevoie, 9 April 2021

Mazars

Signature numérique de Francisco SANCHEZ
Date : 2021.04.09 14:45:09 +02'00'

Francisco Sanchez
_Partner_

www.getlinkgroup.com

# EUROTUNNEL HOLDING SAS
# CONSOLIDATED ACCOUNTING STATEMENTS
# FOR THE
# YEAR ENDED 31 DECEMBER 2020

# 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 2020.

# SUMMARY CONSOLIDATED ACCOUNTING STATEMENTS

## Income statement

| *€'000* | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Exchange rate €/£ | 1.126 | 1.140 |
| Revenue | 692,688 | 957,609 |
| Operating expenses * | (203,948) | (214,860) |
| Employee benefits expense | (171,554) | (187,930) |
| **Operating margin (EBITDA)** | **317,186** | **554,819** |
| Depreciation | (161,563) | (157,896) |
| **Trading profit** | **155,623** | **396,923** |
| Other operating income | 988 | 38,001 |
| Other operating expenses | (4,026) | (4,299) |
| **Operating profit** | **152,585** | **430,625** |
| Finance income | 7,501 | 9,711 |
| Finance costs | (254,196) | (271,120) |
| Net finance costs | (246,695) | (261,409) |
| Other financial income | 39,870 | 4,021 |
| Other financial charges | (8,027) | (30,909) |
| **Pre-tax profit** | **(62,267)** | **142,328** |
| Income tax expense | 3,934 | (18,192) |
| **Net profit for the year** | **(58,333)** | **124,136** |

* *Operating expenses include €1,209,000 in 2020 (2019: €2,261,000) 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 2020 | 31 December 2019 |
|---|---|---|
| Exchange rate €/£ | 1.112 | 1.175 |
| **ASSETS** | | |
| Intangible assets | 3,614 | 3,879 |
| Concession property, plant and equipment | 5,785,347 | 5,872,657 |
| Other property, plant and equipment | – | 1 |
| **Total property, plant and equipment (tangible and intangible)** | **5,788,961** | **5,876,537** |
| Deferred tax asset | 462,403 | 468,448 |
| Other financial assets: external | 21 | 21 |
| Other financial assets: intragroup | 314,091 | 320,829 |
| **Total non-current assets** | **6,565,476** | **6,665,835** |
| Trade receivables: external | 53,699 | 57,944 |
| Trade receivables: intragroup | 3,131 | 5,810 |
| Other receivables: external | 43,048 | 65,133 |
| Other receivables: intragroup | 727,883 | 771,794 |
| Other financial assets | 1,154 | – |
| Cash and cash equivalents | 329,823 | 221,194 |
| **Total current assets** | **1,158,738** | **1,121,875** |
| **Total assets** | **7,724,214** | **7,787,710** |
| **EQUITY AND LIABILITIES** | | |
| Issued share capital | 508,621 | 508,621 |
| Share premium account | 894,718 | 894,718 |
| Other reserves | (1,359,253) | (1,229,761) |
| Profit for the period | (58,333) | 124,136 |
| Cumulative translation reserve | 302,176 | 226,306 |
| **Total equity** | **287,929** | **524,020** |
| Retirement benefit obligations | 150,235 | 95,331 |
| Financial liabilities: external | 4,150,123 | 4,308,247 |
| Financial liabilities: intragroup | 1,517,766 | 1,530,133 |
| Other financial liabilities | 31,120 | 34,137 |
| Interest rate derivatives | 1,306,194 | 1,054,999 |
| **Total non-current liabilities** | **7,155,438** | **7,022,847** |
| Provisions | 5,420 | 1,364 |
| Financial liabilities | 73,190 | 59,581 |
| Other financial liabilities: external | 3,284 | 7,768 |
| Other financial liabilities: intragroup | 15,933 | 16,937 |
| Trade payables: external | 106,963 | 120,347 |
| Trade payables: intragroup | 25,758 | 1,029 |
| Other payables: external | 50,213 | 33,725 |
| Other payables: intragroup | 86 | 92 |
| **Total current liabilities** | **280,847** | **240,843** |
| **Total equity and liabilities** | **7,724,214** | **7,787,710** |

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

# Cash flow statement

| €'000 | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Exchange rate €/£ | 1.112 | 1.175 |
| Operating margin (EBITDA) | 317,186 | 554,819 |
| Exchange adjustment * | (2,177) | (2,050) |
| Increase in working capital | 51,635 | 19,496 |
| Net cash inflow from trading | 366,644 | 572,265 |
| Other operating cash flows received | 12,218 | 7,635 |
| Net cash outflow from taxation | – | (7,425) |
| **Net cash inflow from operating activities** | **378,862** | **572,475** |
| Payments to acquire property, plant and equipment | (78,018) | (102,025) |
| Sale of property, plant and equipment | – | 370 |
| **Net cash outflow from investing activities** | **(78,018)** | **(101,655)** |
| Dividend paid to Getlink SE | – | (143,214) |
| Fees paid on loans | (5,889) | (6,319) |
| SPV Noteholder ongoing fee | (899) | (957) |
| Interest paid on external loans (CLEF) | (162,341) | (168,748) |
| Interest paid on loans (Vendor Loan ETH/GET) | – | (14,642) |
| Interest received on loans | 3,359 | 7,737 |
| Interest paid and repayments on leasing contracts | (2,594) | (2,077) |
| Scheduled repayment of loans | (53,072) | (51,386) |
| Movement in intercompany with GET | 33,902 | (85,199) |
| Interest received on cash and cash equivalents | 1,005 | 2,249 |
| Cash received from the novation of hedging contracts | 5,004 | – |
| **Net cash outflow from financing activities** | **(181,525)** | **(462,556)** |
| **Increase in cash in year** | **119,319** | **8,264** |

* *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 Covid-19 pandemic

Covid-19 was declared a pandemic by the World Health Organization and the French and British governments have adopted, since March 2020 and on several occasions throughout the year, strict provisions for the confinement of the populations and the restriction of movement of people within and between the two countries. These measures remain in force at the closing date.

The public health crisis and the successive measures taken by the governments have had a severe impact on traffic and on the Group's internal organisation, and more particularly on Eurotunnel's activities, which have suffered from mid-March to the end of the year from a very sharp decline in traffic, particularly for Passenger Shuttles and in the number of Eurostar passengers. The Truck Shuttle business also suffered a significant decline in traffic, although to a lesser extent than other sectors, due initially to the need to maintain supply flows of essential goods between France and the United Kingdom, and then over the last quarter of the year due to the effect of stockpiling in the United Kingdom ahead of the end of the Brexit Transition Period on 31 December 2020.

Faced with this situation, the Group implemented a series of measures to allow the movement of goods, while ensuring the health safety of its customers and staff.

It has also taken decisions to preserve its cash flow by implementing *activité partielle* in France and a furlough scheme in the United Kingdom for part of its workforce. The Group has also launched a savings plan aimed at limiting its external expenditure to what is strictly necessary, and at deferring a significant portion of its capital expenditure planned for 2020, while ensuring that it maintains the expenditure required for safety, continuity of operations and preparation of Brexit. All of these measures remain in place at the closing date.

Among other measures to preserve its cash position, the Group also announced on 3 April 2020 the cancellation of the payment of its 2019 dividend and Eurotunnel Holding SAS did not pay Getlink SE a dividend during 2020.

Despite this unfavourable environment, the various measures taken by the Group throughout 2020 enabled it to comply at 31 December 2020 with the covenants relating to Eurotunnel's Term Loan and to strengthen its liquidity position. At 31 December 2020, the Eurotunnel Group's cash and cash equivalents amounted to €330 million, up €109 million compared to the end of 2019.

Nevertheless, in the context of the health crisis and as a precautionary measure, on 17 October 2020, the Group entered into agreement with its creditors for a waiver on its main covenant, the "senior debt coverage ratio", failure to comply with which would constitute an event of default under the Term Loan. This waiver will apply for the three test dates between December 2020 and December 2021 inclusive, unless the Group decides that such a waiver is not required no later than two months prior to one of the dates in question. The waiver is subject to certain conditions, including the holding of a minimum cash balance of approximately €200 million at the Eurotunnel sub-group level at the relevant dates.

The consequences for the Group of the Covid-19 pandemic in 2021 will depend on the evolution of the pandemic over the coming months and the decisions and actions of the French and British authorities, as well as their impact on the economy in general and on cross-Channel transport in particular.

As part of the preparation of its budget estimates for 2021 and subsequent years, the Group has used the information available to date and its best assessment of how the situation, particularly in terms of health, could evolve in the short and medium term. These estimates are obviously subject to uncertainty in the context of high pandemic volatility. On the basis of these forecasts, the Eurotunnel Group will have a sufficient level of liquidity to cover the servicing of its debt in 2021 and 2022 as well as the financing of its activities.

The Eurotunnel Group has taken this context into account in determining the main estimates and assumptions made in preparing its annual consolidated accounting statements for the year ended 31 December 2020, as set out in note B.2 below. It also confirms that the indications of impairment identified on the assets of the Concession led it to carry out impairment tests on its assets at 31 December 2020, which did not result in the recognition of any exceptional impairment at that date. In addition, the Eurotunnel Group's exposure to credit risk on its operating activities did not lead it to significantly reconsider the expected credit losses on its customers at 31 December 2020.

## A.2 Brexit: the United Kingdom's exit from the European Union

Following the decision of the referendum of 23 June 2016 and the triggering of Article 50 by the British government at the end of March 2017, the official exit of the United Kingdom from the European Union took place on 31 January 2020 with a Transition Period that ended on 31 December 2020. On 24 December 2020, the United Kingdom and the European Union concluded an agreement on their future trade relations. The UK Government indicated that the application of the new border control arrangements would be phased in during the first half of 2021.

During the year, the Eurotunnel Group finalised the implementation of its action and investment plan launched in mid-2018 and designed to maintain traffic fluidity in the post-Brexit period. These plans and the new procedures for managing vehicle and goods inspections have been in operation since 1 January 2021.

This context has been taken into account by the Eurotunnel Group when assessing the main estimations and assumptions used for the consolidated accounts as at 31 December 2020, as mentioned in note B.2 below.

# B. 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.

## B.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 2020[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 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.

### B.1.1 Texts adopted by the European Union whose application is compulsory

The texts adopted by the European Union, the application of which is compulsory for financial years beginning on or after 1 January 2020, are as follows:

- amendments to IAS 1 and IAS 8 – definition of "material";
- amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform – phase 1;
- amendments to IFRS 3 – definition of a business; and
- temporary amendment to IFRS 16 – Covid-19-related rent concessions.

The application of these texts as well as the latest decisions of the IFRIC has not had a significant impact on the Eurotunnel Group's consolidated accounting statements.

### B.1.2 Other texts and amendments published by the IASB but not approved by the European Union

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

- amendments to IAS 1 – classification of liabilities as current or non-current;
- amendments to IFRS 3 – business combinations – references to the conceptual framework;
- amendments to IAS 16 – proceeds before intended use of property, plant and equipment; and
- amendments to IAS 37 – cost of fulfilling a contract.

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

[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.*

## B.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[2].
- All other assets and liabilities at the rate ruling at the end of the reporting period.
- 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 2020 and 2019 are as follows:

| €/£ | 2020 | 2019 |
|---|---|---|
| Closing rate | 1.112 | 1.175 |
| Average rate | 1.126 | 1.140 |

**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 2020 have been established in the context of the uncertainties concerning the uncertainties concerning the Covid-19 pandemic and 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.

# C. Scope of consolidation

## C.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.

[2] *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.*

**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.

## C.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 2019 and 31 December 2020:

| | Country of registration or incorporation | Consolidation method | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|---|---|
| | | | % 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 2020** | | | | | | |
| 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.*

# D. 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.

## E. 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.

## F. 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.

# G. 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).

## H. 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.