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## Fitch: Eurotunnel Has No Rating Implications For Financial Guarantors

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Fitch Ratings-New York-14 July 2006: Fitch Ratings has been monitoring the developments at Eurotunnel for the past several years, given several financial guarantors' sizeable exposure to this high-profile credit, led by MBIA Insurance Corp. (MBIA) (See table below). Given the financial debt burden and marginal financial performance of Eurotunnel, there had been a distinct possibility that Eurotunnel's management would file for insolvency protection at some juncture. On July 12, 2006, the company's management announced that it would be pursuing legal proceedings to place itself under the protection of the Commercial Court of Paris pursuant to the French law 'procedure de sauvegarde' (safeguard procedure). Depending upon the ruling of the court, it is possible that there could be a suspension of debt service payments by Eurotunnel in the near term.

Insured Eurotunnel Exposure\*/(US \$ Mil)/Gross Par/Net Par

MBIA Insurance Corp. 1,960.5 / 1,394.4;  
 Ambac Assurance Corp. 349.8 / 349.8;  
 Assured Guaranty Ltd. 198.3 / 198.3;

Total 2,508.6 / 1,942.5

\*Source: Fitch-rated Financial Guarantors; all amounts have been rounded.

Despite the size of the exposure to Eurotunnel, Fitch does not foresee any changes to the insurer financial strength ratings of the companies exposed to this credit, as the potential downside scenarios of this troubled credit have been fully considered in the rating process. Fitch is comforted by the relative position the financial guarantors maintain in Eurotunnel's capital structure. The financial guarantors have no exposure to debt of Eurotunnel below Tier 3, and the financial guarantors' only exposure to Tier 3 debt is indirectly via the collateral debt portfolio of Fixed-Link Finance B.V. (FLF1). Actually about \$1.7 billion of the above \$1.9 billion net par exposure represents exposure to obligations of FLF1 and Fixed-Link Finance 2 B.V. (FLF2). Both FLF1 and FLF2 are special purpose vehicles that hold debt issued by Eurotunnel. The FLF1 vehicle holds a mix of Tier 1, 2 and 3 Eurotunnel debt, and FLF2 holds only Tier 1A debt - which ranks pari passu in seniority with Tier 1. (Refer to Fitch's Credit Analysis 'Eurotunnel and Related FLF1 & FLF2 Debt Vehicles - How Far Underwater Are They?' dated May 19, 2005 and available on the Fitch Ratings web site at 'www.fitchratings.com').

The FLF1 financing structure contains a liquidity facility that will cushion the financial guarantors from incurring debt service claims on FLF1's insured debt for a period of time following any interruption of debt service payments by Eurotunnel. On the other hand, the FLF2 vehicle does not maintain a third-party liquidity facility, which is expected to result in sizeable liquidity claims for the affected financial guarantors upon cessation of debt service payments by Eurotunnel.

Because the financial guarantors' exposure is relatively senior, and because of the central role the financial guarantors have in the restructuring negotiations, Fitch does not currently expect either interim developments or ultimate resolution of this Eurotunnel restructuring to have a material adverse impact on the financial condition of the affected financial guarantors, despite the sizeable amount of net par exposure. That said, given the recent filing, liquidity claims have become an increased possibility, particularly on non-FLF1 exposures, however a very high rate of recovery of these claims is ultimately anticipated down the line.

Given the various constituencies involved in Eurotunnel's credit, Fitch believes the restructuring process could become protracted and remain contentious and, if this is the case, resolution of this exposure will likely require further significant management time and resources on the part of the financial guarantors, particularly MBIA. Any deterioration in Eurotunnel's financial operation during the restructuring process would be expected to negatively impact the final resolution of the exposures that have been insured.

Fitch will continue to monitor the on-going developments with respect to Eurotunnel as to possible implications for the exposed financial guarantors.

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