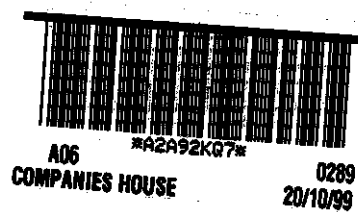


EUROPEAN NIGHT SERVICES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1998



EUROPEAN NIGHT SERVICES LIMITED
DIRECTORS' REPORT

The Directors present their report, together with the accounts of the Company, for the year to 31 December 1998.

1. Review of the Business

European Night Services was formed for the purpose of procuring and operating overnight train services between the UK and mainland Europe through the Channel Tunnel.

Since the formation of the company, the market for overnight passenger rail services has changed. As a result the Company reviewed its business plans and concluded that its original plans were no longer appropriate. The Company explored possible alternative uses for some of the rolling stock, but given the unique specification of the stock, these alternatives were not viable. Accordingly the directors have fully provided against the cost of the rolling stock in prior accounting periods.

Following negotiations with the rolling stock suppliers, GEC-Alsthom, a settlement to the procurement contract was reached on 25th February 1998. Under the terms of this settlement it was agreed that title to all ENS rolling stock and spares, in whatever stage of construction, would remain with or pass to GEC-Alsthom on 1st April 1998, for nil consideration, unless any partner opted to purchase a share of the rolling stock. In the event no partner chose to exercise its option and therefore all rolling stock and spares transferred to GEC-Alsthom on 1st April 1998. In addition it was agreed that ENS would share any future proceeds in excess of £14m realised by GEC in relation to the ENS rolling stock, of which none has yet been realised.

The procurement of the rolling stock was financed by finance leases. Following the termination of the procurement contract it was necessary to redeem these. After negotiations with the lessors the leases were redeemed on 1st May 1998 with funds advanced from the shareholders of £167.61m. All costs associated with the termination of these leases was fully provided for in the 1997 accounts.

2. Future Prospects

Following the termination of the procurement contract the Company has no plans to enter into any trading activities, and as such has been dormant since.

3. Dividends

The Directors do not propose that a dividend is paid.

4. Directors and interests

The following Directors, none of whom have any interest in the shares of the Company, served during the year:

A.F. Mills (Chairman, resigned 8 April 1998)

W. Krombach (resigned 31 July 1998)

F.C. Marckmann (resigned 12 June 1998)

P. Reinhardt (resigned 28 December 1998)

J. G. Struthers (Chairman, appointed 9 April 1998)

K.M. O'Neill (appointed 6 August 1998, resigned 20 November 1998)

T. Steel (appointed 14 April 1998, resigned 30 July 1998)

T.J. Wagenaar (appointed 12 June 1998)

Dr W. A. Kostler (appointed 1 August 1998)

J-L. Drugeon (appointed 28 December 1998)

5. Statement of Directors' responsibilities in respect of the preparation of accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit and loss for the financial period.

They are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the accounts on pages 4 to 11, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors' have prepared the accounts recognising that there are no current plans to enter into trading activities.

6. Year 2000 Compliance

The Company had no trading activity during the year and there are no plans to enter into trading activities in the future, thus the Directors do not believe there is any risk associated with the year 2000 issue.

7. Auditors

Pursuant to a shareholder's resolution the Company is not obliged to re-appoint its auditors annually.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'Victoria Wilson', written over a horizontal line.

V. WILSON

Secretary

19 July 1999

EUROPEAN NIGHT SERVICES LIMITED

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report including, as described on page 2, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding Directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the Annual Report and considered whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1998 and the Company's result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

~~19 July 1999~~
12 October 1999

PROFIT AND LOSS ACCOUNT

		Year ended 31 December 1998 £ (000) Discontinued Activities	Year ended 31 December 1997 £ (000) Discontinued Activities
	Note		
Turnover	2	-	-
Materials, supplies and services		-	(1,773)
Own work capitalised		<u>-</u>	<u>1,727</u>
Operating result/(loss) on ordinary activities	3	-	(46)
Provision for the diminution in fixed assets and termination of finance leases	5	<u>-</u>	<u>(61,276)</u>
Result after exceptional item		-	(61,322)
Interest payable and similar charges	6	-	-
Result on ordinary activities before taxation		<u>-</u>	<u>(61,322)</u>
Taxation	7	-	(1)
Result on ordinary activities after taxation		<u>-</u>	<u>(61,323)</u>
Result for the year	12	<u><u>-</u></u>	<u><u>(61,323)</u></u>

There are no other recognised gains or losses apart from those included within the result for the years shown above.

EUROPEAN NIGHT SERVICES LIMITED

BALANCE SHEET

		31 December 1998		31 December 1997	
	Note	£(000)	£(000)	£(000)	£(000)
Tangible fixed assets	8		-		-
Current assets					
Other debtors		1		101	
Cash at Bank		248		65	
		<hr/>		<hr/>	
		249		166	
Creditors: amounts falling due					
Within one year	9	<u>(186,293)</u>		<u>(186,104)</u>	
Net current liabilities			(186,044)		(185,938)
Total assets less current liabilities			<hr/>		<hr/>
			(186,044)		(185,938)
Provision for liabilities and charges	10		(126)		(232)
Net liabilities			<u>(186,170)</u>		<u>(186,170)</u>
Capital and reserves					
Called up share capital	11		100		100
Profit and loss account	12		(186,270)		(186,270)
			<hr/>		<hr/>
Equity shareholders funds	12		<u>(186,170)</u>		<u>(186,170)</u>

These accounts were approved by the Directors on 19 July 1999.


J.G. STRUTHERS
CHAIRMAN

EUROPEAN NIGHT SERVICES LIMITED

STATEMENT OF CASH FLOWS

	Year ended 31 December 1998		Year ended 31 December 1997	
	Note	£(000)	£(000)	£(000)
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	15(a)	(685)		(658)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		-	2	
Interest element of finance lease				
Rental payments		-	(4,894)	
Net cash (outflow) from returns on Investments and servicing of finance		-		(4,892)
TAXATION				
Corporation tax paid		-		-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets		-	(3,080)	
Net cash (outflow) from investing Activities		-		(3,080)
FINANCING				
Cash inflow from increase in shareholders' loans		168,476	5,712	
Lease repayments		(167,608)	-	
Receipts from leasing		-	<u>2,442</u>	
Net cash inflow from financing		868		8,154
INCREASE/(DECREASE) IN CASH		<u>183</u>		<u>(476)</u>

NOTES TO THE ACCOUNTS

1. **Accounting policies**

Basis of accounts

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. They have also been prepared recognising that there are no current plans to enter into trading activities. The shareholders have agreed to continue to support the company as required by the joint venture agreement to which they are party.

Tangible fixed assets

Expenditure, including interest, administration, planning and project management costs, on assets required to operate overnight passenger services through the Channel Tunnel was previously capitalised. As a result of the termination of the procurement contract the fixed assets were written-down to nil value in prior accounting periods.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign exchange

Transactions in a foreign currency are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate ruling at the balance sheet date.

Leased assets

The rolling stock was held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset are passed to the Company. These leases were redeemed on 1 May 1998, and the redemption costs of the leases were fully provided for in the 1997 accounts.

2. **Turnover**

The company received no trading income.

3. **Operating expenditure**

The Company employs no direct staff. All services are provided by the Shareholders for which no charge is made.

4. **Directors' emoluments**

The Company's Directors are all employees of the shareholding Railways and, as such, received no emoluments or expenses in respect of their Directorship. Under an agreement between the Company and the shareholding Railways no recharge is made in respect of Directors' costs. No Director held any material interest in any contract so far as the relevant provisions of the Companies Act are concerned.

NOTES TO THE ACCOUNTS (continued)

5. Provision for the diminution in fixed assets and termination of finance leases

During 1998, the procurement contract for the rolling stock was terminated and the associated finance leases were redeemed. The effect of these transactions was fully provided for in the 1997 accounts, giving rise to the following exceptional items:-

	Year ended 31 December 1998	Year ended 31 December 1997
	£(000)	£(000)
Provision for diminution in fixed asset value	-	56,376
Provision for closure costs (non lease)	-	232
Provision for termination of finance leases	-	4,668
	<u>-</u>	<u>61,276</u>

6. Interest payable and similar charges

	Year ended 31 December 1998	Year ended 31 December 1997
	£(000)	£(000)
Interest accrued on finance leases	-	11,186
Amortisation of lease set up and renegotiation fees	-	372
Interest payable on shareholders loans	-	1,001
Interest receivable	-	(2)
Interest capitalised	-	(12,557)
Interest charged to profit and loss account	<u>-</u>	<u>-</u>

7. Tax on result on ordinary activities

	Year ended 31 December 1998	Year ended 31 December 1997
	£(000)	£(000)
UK corporation tax	<u>-</u>	<u>1</u>

No provision is considered necessary for deferred tax, as no liability is likely to crystallise in the foreseeable future.

NOTES TO THE ACCOUNTS (continued)

8. Tangible Fixed Assets

	Rolling Stock £(000)
<u>Cost</u>	
At 1 January 1998	181,290
Additions in year	-
Disposals in year	<u>(181,290)</u>
At 31 December 1998	<u>-</u>
<u>Provision for diminution (100%)</u>	
At 1 January 1998	(181,290)
Disposals in year	<u>181,290</u>
At 31 December 1998	<u>-</u>
Net Book Value at 31 December 1998	<u>-</u>
Net Book Value at 31 December 1997	<u>-</u>

All of the above assets were held under finance leases.

9. Creditors: Amounts falling due within one year

	Year ended 31 December 1998 £(000)	Year ended 31 December 1997 £(000)
Shareholders' loans	186,162	17,686
Trade Creditors	131	94
Amounts due to parent undertaking	-	124
Accruals and deferred income	-	588
Provision for tax payable	-	4
Lease liability	-	167,608
	<u>186,293</u>	<u>186,104</u>

The Shareholders' loans are unsecured, interest free and are repayable within one year.

NOTES TO THE ACCOUNTS (continued)

10. Provision for Liabilities and Charges

	Closure Costs £(000)
Balance as at 1 January 1998	232
Utilised in year	<u>(106)</u>
Balance as at 31 December 1998	<u>126</u>

11. Share capital

The authorised, issued and fully paid-up share capital of the Company is 100,000 ordinary shares of £1 each. No shares have been issued during the year.

12. Reconciliation of shareholders' funds

	Share Capital £(000)	Profit & loss account £(000)	Total £(000)
Balance as at 1 January 1998	100	(186,270)	(186,170)
Result for the year	-	-	-
Balance as at 31 December 1998	<u>100</u>	<u>(186,270)</u>	<u>(186,170)</u>

13. Capital and other commitments

At 31 December 1998, the Company has no capital commitments (31 December 1997 - £Nil).

14. Immediate and ultimate parent undertaking

The immediate parent is Eurostar (U.K.) Limited who owns 61.5% of the issued share capital, within whose accounts the Company's results are consolidated. The ultimate parent undertaking, is London & Continental Railways Ltd.

The only material transactions with related parties are the provision of loans by shareholders. Movements during the year have been as follows:

	DB £(000)	EUKL £(000)	NS £(000)	SNCF £(000)	TOTAL £(000)
Balance at 1 January 1998	2,382	10,883	2,388	2,033	17,686
New loans in year	22,745	103,613	22,744	19,374	168,476
Balance at 31 December 1998	<u>25,127</u>	<u>114,496</u>	<u>25,132</u>	<u>21,407</u>	<u>186,162</u>

The ultimate shareholders and their percentage shareholdings are:

DB - Deutsche Bahn (shareholding - 13.5%)

EUKL - Eurostar (U.K.) Limited (shareholding - 61.5%)

NS - NV Nederlandse Spoorwegen (shareholding - 13.5%)

SNCF - Société National des Chemins de fer Français (shareholding - 11.5%)

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash (outflow) from operating activities.

	Year ended 31 December 1998	Year ended 31 December 1997
	£(000)	£(000)
Operating loss	-	(46)
Decrease/(Increase) in debtors	100	(11)
(Decrease) in creditors and accruals	(785)	(601)
	<u>(685)</u>	<u>(658)</u>

(b) Reconciliation of net cash flow to movement in net debt.

	Year ended 31 December 1998	Year ended 31 December 1997
	£(000)	£(000)
Increase/(decrease) in cash	183	(476)
Cash inflow from increase in shareholders' loans	(168,476)	(5,712)
Drawdown of leases	-	(2,442)
Lease repayments	167,608	4,894
Change in net debt resulting from cash flows	<u>(685)</u>	<u>(3,736)</u>
Accrued interest on shareholders' loans	-	(1,001)
Accrued interest on leases	-	(11,186)
Amortisation on leases	-	(372)
Loss on termination of leases	-	(4,668)
	<u>(685)</u>	<u>(20,963)</u>
Net debt at 1 January 1998 (1 January 1997)	<u>(185,229)</u>	<u>(164,266)</u>
Net debt at 31 December 1998 (31 December 1997)	<u>(185,914)</u>	<u>(185,229)</u>

(c) Analysis of net debt

	Opening Balance	Cash flow	Closing balance
	£(000)	£(000)	£(000)
Cash	65	183	248
Shareholders' loans	(17,686)	(168,476)	(186,162)
Finance lease obligations	<u>(167,608)</u>	<u>167,608</u>	-
	<u>(185,229)</u>	<u>(685)</u>	<u>(185,914)</u>