

CENTRAL RAILWAY

DIRECTORS' STATEMENT

DECEMBER 2005

After the Secretary of State's decision in March last year not to let the company seek approval for the project in the UK via a hybrid Bill, and Andrew Gritten's untimely death in November, this has been a year of severe retrenchment and of taking stock.

With a continuing awareness of Andrew's achievements for the company, we continue the search for a suitable new chairman to lead the company to success going forward. We have made some progress in selecting potential candidates. In the meantime, Sir Tom Legg has very kindly agreed to serve as an interim chairman and has been assisting the company greatly in this capacity.

The directors are conscious of the financial difficulties inherent in the company's current situation and have taken steps to enable the company to remain in a stable solvent state. To this end, the company's running expenses have been severely reduced and it has now been proposed that the company is re-registered as a limited company instead of a public limited company (plc) with the effect of further reducing our administrative costs. It will remain possible for the company to re-register as a plc again in the future should our circumstances require it.

In discussing the company's strategy to proceed from here, we have benefited from a large volume of material made public under the new Freedom of Information (FOI) Act and feedback from officials and others about what has been going on inside Government in relation to Central Railway.

Notwithstanding the damaging opposition of the Strategic Rail Authority (SRA), an entity which has been closed down by the Government, we have concluded that the Department for Transport identified no fundamental flaws in the project or its construction financing case. Department for Transport papers show that it was the view of the Department that Central Railway had a "reasonable story to tell". The project is, rightly, understood to offer significant national benefits. It was accepted

that the company has demonstrated that it can address the technical objections raised to the project by the SRA.

From the information we have received from various sources it would appear that other parts of government seem to have been at least acquiescent and, in important cases, supportive. It is of course the company's proposal that no public money be required for the construction of the railway. The Department acknowledged that it could not expect Central Railway to secure binding financing commitments from potential lenders or investors at this stage.

It is therefore the board's view that the company has satisfied the Government on most points. Indeed, the material released to us under the FOI Act shows a concern on the part of decision-makers that, if they sought any more evidence of the project's soundness, they would be "boxed in" to having to support the project. It would perhaps have been a source of some satisfaction to Andrew, as it should be to shareholders, that the project made so much progress in such an inconducive environment.

However, real progress will require Government support. The politicians remained cautious. The problems of past (non-commercial) rail projects such as Eurotunnel, the West Coast Main Line, High Speed Passenger Link and now CrossRail have not been helpful in building a positive impression of new railway projects.

The failure to secure UK political support for the project suggests that more is required of us by the political system. The directors believe that the principal concern of the Government was that, although the project is good, there was a lack of participation by major companies

and investors, who might (for example) be willing to put up some of the approximately £50m needed for the three year “approvals phase” before the construction financing can take place and the project can get underway.

The directors and the other shareholders and supporters who have collectively risked some £10 million to reach this point have always assumed that the political system will, eventually, make transport investment decisions in the long-term national interest. The Government’s concerns therefore have to be addressed.

Actions going forward

To that end, the company intends to assemble a group of corporate and financial supporters who will collectively be able to inspire politicians with the necessary confidence.

The company also intends, in parallel, to explore informally whether a different mode of promoting the project in the UK (for example as a public private partnership) would be better received.

It is likely that success in attracting additional supporters for the project will in due course have a bearing on the appointment of a new chairman on a more permanent basis. In the meantime, the board wishes to thank Sir Tom Legg for his assistance.

Alan Stevens, Chief Executive