Estonian Government and BRS signed the Share Transfer Agreement, End Privatization of Estonian Railways

Tallinn, Estonia / November 17, 2006 – The government of Estonia and Baltic Rail Services (BRS), the owner of 66 per cent of Estonian Railways, have signed the agreement that enables them to terminate the privatization of Estonian Railways and start the transfer of ownership of the company to the Estonian government with the price of 150 million euros and settlement of all ongoing disputes between the parties. The final transfer of shares is also subject to parliamentary approval and budget allocation.

Previously BRS has sued the Government of Estonia before the International Centre for Settling Investment Disputes in Washington and in the Stockholm Arbitration court. The government of Estonia has sued BRS in the Stockholm Arbitration court.

According to the minister of Economy and Communication, Edgar Savisaar, neither the state nor the private owners of Estonian Railways were happy with the piling of disputes and the non-cooperative atmosphere that had developed during the recent years. He told that mostly the differences were fueled by disagreement on infrastructure access charges and other provisions covering open access operators.

"Divorce was inevitable," the minister said, adding that the confrontation did not allow normal development of Estonian Railways. "We absolutely could not agree to BRS’s interpretation of the privatization agreement, their understanding of tariffs, investment principles and many other issues," said Savisaar.

The minister pointed out that the government has plans to put more emphasis on passenger transport. "We believe that human transport on railways is as important as freight transport and we believe that both can be developed so that neither comes on the expense of the other," said he, pointing out that passenger traffic was not so much the issue of conflict between the government and BRS but a new priority that the government wants to achieve once it has regained control over Estonian Railways.

The chairman of the supervisory board of BRS, Edward Burkhardt said that the settlement was a rational choice that was made possible by thorough and difficult but professional negotiations between the private owners and the government. "We had major differences in our views on legal requirements, but rather than continue to pursue costly and lengthy lawsuits and arbitration, which was having a detrimental impact on the railway, we mutually decided to reach a negotiated settlement to settle all disputes by returning the railway to the State," he said.

"We are not happy with this result, and the sale price is much lower than the inherent company's value, but in the circumstances this was a rational way to go," remarked Burkhardt. He added that BRS is handing over a company that is in a good shape. "We have been a prudent owner to Estonian Railways

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during the 5 years of ownership during which time we have invested heavily in infrastructure and rolling stock, improved safety and service, increased capacity, eliminated internal corruption and met all the objectives of the privatization," he said.

Henry Posner III, chairman of BRS shareholder Railroad Development Corporation (RDC), commented, "While traffic growth and efficiency improvement are important results of EVR's performance under BRS management, I take the greatest personal satisfaction from our safety improvement. The last five years have seen a steady decrease in personal injuries, from 24 in 2001 to 6 in 2005. This has been achieved primarily because safety has been a top priority for the shareholders, and therefore for the company."

Sixty-six per cent of the shares of Estonian Railways were privatized by the government of Estonia in March 2001 to Baltic Rail Services, representing several well known international railway companies and businessmen. The relations between the government and the new owners became tense after the application of new Railway Act in 2003, certain provision of which were seen by BRS as a breach of privatization agreement. Also, the parties had significant differences in interpreting the terms of privatization contract and in corporate governance, resulting in numerous legal actions.

RDC is a privately held Pittsburgh-based railway management and investment company, focusing on “Emerging Corridors in Emerging Markets.” For more information about RDC and its joint ventures in the USA, Argentina, Guatemala, Peru, Malawi, Mozambique and Estonia, please visit www.RRDC.com.

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