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RDC RAILROAD
DEVELOPMENT
CORPORATION
Pittsburgh, PA USA

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Guatemalan government violates terms of railroad privatization agreement

Guatemala City / 28 August 2006 — On Friday, 25 August, the government of Guatemala took the extraordinary step of unilaterally declaring an essential element of the country's 1998 railroad privatization, the lease of the rolling stock, "lesivo" or "against the interests of the State". The rolling stock contract was formalized in 2003, as an accessory element of the main railroad concession "usufruct" agreement entered into in 1998. The railroad concession to Ferrovías Guatemala (FVG) was not only approved by the government of that time, but also ratified by Congress.

It is believed that this action was taken in response to arbitration initiated by FVG under the terms of the usufruct agreement. Arbitration was initiated after having failure to reach agreement over the diversion by State asset owner FEGUA of over \$2 million dollars from a railroad infrastructure trust that has been funded exclusively by FVG. Instead of being used to maintain and improve Guatemala's railroad infrastructure, these funds have been used to support 40 FEGUA functionaries whose main responsibility is to monitor FVG and its 100 employees.

In the short term, under the terms of the concession usufruct agreement the government cannot force the company out of business, but its action has placed additional pressure on FVG by making its customers and suppliers wary of doing business with it. This comes at a time when it is suffering from extensive damage due to this year's extraordinary rains and loss of its entire Mexican traffic base at the border station of Tecun Uman due to damage to Mexico's railroad infrastructure last year as result of Tropical Storm Stan. FVG personnel have nonetheless not only kept operations going to the Atlantic, but have worked without a single injury since February 2005, an accomplishment that has earned FVG global recognition.

It is believed that this action is intended to further 2 government objectives:

1. To force FVG to withdraw from the arbitration process, and
2. To take back certain concessioned assets contained in the usufruct on behalf of selected private sector companies.

FVG Chairman Henry Posner III responded, "This most recent action has made it clear to us that not only will the Government of Guatemala go to extraordinary lengths to avoid its obligations under the terms of the concession, but is also acting on behalf of private sector companies interested in selected assets. We must remind the government that we have honored our commitments at great expense and despite problems far greater than foreseen at the time of our original investment.

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“This is now more than an investment for us; it is a quest for justice. While we have lost faith in the Guatemalan legal and political systems, we remain convinced that there is an important role for railways in a country that in 1996 abandoned its railway and that is dependent neither on unrealistic schemes nor government subsidies. For this reason we will not only continue to push for implementation of our business plan as originally contemplated, but fight for the right to do so against a government that has gone well out of its way to not only obstruct our progress but violate the terms of the railroad infrastructure trust and begin what amounts to an expropriation of our concession. We owe this to our 62 shareholders, our customers and our employees.

“We also owe it to our country, not only as a company formed to provide desperately-needed strategic infrastructure but as individuals repelled by a culture of corruption and denial that we are no longer willing to ignore. This sends a strong message as to the character of this country to investors when contracts entered into more than 8 years ago, and approved by the country’s congress, are unilaterally and arbitrarily declared ‘lesivo’.”

FVG’s majority shareholder is Railroad Development Corporation (RDC), a privately held U.S. 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, Estonia, Mozambique and Malawi, please visit www.RRDC.com.

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