

Secretary of State for Transport
Great Minster House
33 Horseferry Road
London SW1P 4DR
Attention: Director-General, Rail Group

Transport for London
Windsor House
42 – 50 Victoria Street
London SW1H 0TL
Attention: General Counsel

Crossrail Project Development Agreement (“PDA”) - Adverse Event Notice

In accordance with clause 22 of the PDA, we write to notify you of the following Adverse Event:

- Notification from Network Rail that:
 - (a) its ability to carry out the On Network Works, including Variations, is subject to a funding limit (originally stated to be £2,159m but now understood to be £2,199m);
 - (b) any spend in respect of Variations above £110m will require cash funding from CRL or a reduction in the Network Rail's portfolio elsewhere, potentially cancelling schemes;
 - (c) Network Rail is not authorised to effect such cost reduction measures without a DfT direction.

Sponsors will be aware that:

- (i) Network Rail's obligations in the Regulatory Protocol are not subject to any funding limit;
- (ii) the introduction of this funding limit is inconsistent with Network Rail's obligations under the Regulatory Protocol;
- (iii) the DfT Intervention Amount in the Regulatory Protocol is £2,300m; and
- (iv) the Sponsors' respective funding commitments and obligations to pay track access charges contained in the Sponsors Agreement are all based on the DfT Intervention Amount of £2,300m.

Following discussion of this issue at the Sponsor Board meeting on 8 June 2016, representatives of CRL and the Joint Sponsor Team met Network Rail to review the status of the Variation Notices which are currently outstanding. As a result, certain steps are being taken to mitigate the immediate impact of this funding limit on the Crossrail project.

However, even if these steps are successful, the funding limit will, in the absence of Sponsor intervention, remain an on-going constraint on the delivery of Crossrail in a timely, cost-effective and efficient manner. In the opinion of CRL, this constraint is a material adverse risk to the Crossrail project particularly having regard to the risk of further substantial increases in the cost of the On Network Works.

CRL does not at present propose to develop a Remedial Action Plan as envisaged by the PDA. Rather, CRL requests the Sponsors to take all necessary steps to ensure that Network Rail is able to maintain a minimum funding commitment of £2,300m for the On Network Works.

Crossrail Limited

23 June 2016