

17 October 2007

## **Chairman's Address**

### **Annual Meeting – 17 October 2007**

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Good afternoon. My name is Bob Morris. I am the Chairman of the RiverCity Motorway Services Board.

On behalf of my fellow Directors I would like to welcome you to the RiverCity Motorway Group's first annual investor briefing.

Can I start by introducing our two senior executives on stage with me today: Chief Executive Officer – Flan Cleary and Chief Financial Officer – Christine Hayward.

Attending today's investor meeting are a number of the Directors of the Responsible Entity, RiverCity Motorway Management Limited: John Barry – Chairman, Peter Emery and myself.

The day to day running of the RiverCity business is delegated to the RiverCity Motorway Services Board. I would like to welcome my fellow Directors: Peter Hicks, Fritz Syverston, Peter Hollingsworth, Ken MacDonald and Bernard Rowley.

I am also pleased to welcome Scott Guse, Audit Partner from KPMG.

We will all be available at the conclusion of the meeting to talk with you individually should you have any particular issues or questions.

Finally, I would like to welcome representatives from Brisbane City Council, and our construction joint venture partners Leighton Contractors, Baulderstone Hornibrook and Bilfinger Berger.

I am pleased to report that the Group has made substantial progress since we signed the Concession Deed with Brisbane City Council and commenced trading on the Australian Securities Exchange in August 2006. We have established a first-class team that provides the Group with outstanding experience in the delivery and operation of toll roads. This small, enthusiastic team remains focused on building a successful toll road business from design and construction, through to ramp-up and steady state.

Our design and construction contractor, Leighton Contractors and Baulderstone Hornibrook Bilfinger Berger Joint Venture (LBB JV), has made excellent progress which is reflected in construction expenditure of \$503 million for the financial period.

In January and June this year, RiverCity Motorway Group declared its first and second distributions to investors. We intend to make fixed distributions to investors, equivalent to 6 cents per stapled unit per annum, until 31 December 2011.

Importantly, the Queensland Government is well advanced with the Airport Link project. This is a 5km underground toll road that connects the growing northern suburbs of Brisbane and the Airport to the northern end of our tunnel. Tenders for this project close in December this year, which is ahead of the assumed date in our traffic modelling.

We are continuing to monitor traffic growth on the roads that link to our tunnel. It is pleasing to note that the traffic volumes on the five major roads that will link directly to our tunnel continue to grow in line with our traffic model forecasts, despite the impact of construction on roads around the project.

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Our design and construction contractor has achieved a number of important milestones for the period, including the commencement of roadheader tunnelling some four months ahead of schedule and the manufacture of the project's two 4,000-tonne tunnel boring machines three months early. The first of these machines is now scheduled to start work in December this year, with the second machine to follow in March next year.

Design and development of the tolling system is, of course, another critical activity during the design and construction phase. To date, the Group has made very good progress on the development of the tolling system.

Most importantly, the progress made this year is ensuring that project risks are steadily reducing.

The North–South Bypass Tunnel will provide a critical transport link for Brisbane motorists. The essential role of the tunnel is to link five major motorways and arterial roads on the north and south sides of the Brisbane River. Our tunnel will provide an important bypass of the congested Brisbane CBD and Fortitude Valley.

The project is enormous, but by 2010 the benefits are set to be even greater. As well as cutting travel times between Woolloongabba and Bowen Hills by up to 30 percent, it will make travel times more reliable, remove the stress for motorists forced to stop and start at traffic lights, reduce fuel use and improve safety.

I should also mention that Brisbane City Council and its staff have done a very proficient job in bringing this complex project to reality. RiverCity Motorway Group is continuing to work in close partnership with Council as we deliver this landmark project. Our tunnel is the first key component of Brisbane Lord Mayor Campbell Newman's *TransApex* strategy. This strategy, which is aimed at addressing Brisbane's growing traffic congestion problem, is continuing to gather pace.

The Queensland Government is well advanced with the second component of the strategy, the Airport Link project referred to earlier. This additional freeway connection will improve the northern access to our project. Whilst RiverCity Motorway Group is not aligned with any of the consortia bidding to finance, build, and operate the Airport Link toll road, there is an opportunity for the Group to develop a flexible and scalable tolling system back office that is capable of meeting the requirements of this and other future toll roads.

Council has selected a builder to construct the third link in the *TransApex* strategy, the Hale Street bridge. This tolled bridge will provide a local link for motorists travelling from Milton to West End. This project is due to open in 2010.

In recent weeks there have also been media reports that the Federal Government is planning to contribute towards the construction of the Northern Link tunnel. This tunnel has been proposed to meet the future transport need of the growing western suburbs of Brisbane.

ABS 2006 Census figures released this year showed that Brisbane's population is continuing to grow at a faster rate than the rest of Australia, up 11.5 percent in the past 5 years. It is also worth noting that the population growth in Windsor, Bowen Hills, Fortitude Valley, Kangaroo Point and Woolloongabba, which are adjacent to our tunnel, have been growing three times faster than the rest of Brisbane. A further strength of these nearby suburbs is the high number of young people aged 25 to 34 years. This group makes up 27.1 percent of the population in these local suburbs, compared to Brisbane 14.6 percent and Australia 13.5 percent.

Brisbane's economic prosperity has also seen incomes not only catch-up with the rest of Australia, but now exceed those of people in most other parts of the country. The most recent Census also showed that median family incomes are now approximately 8 percent higher than the national average, with Brisbane residents now earning \$50 per week more than the national average.

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Another positive sign for the future successful operation of our business is the high number of Brisbane homes connected to the internet. Engaging with customers on-line is a fundamental strategy that underpins the efficient operation of all toll road businesses. It is, therefore, very positive to see that 64 percent of Brisbane homes are online. This is 5 percent above the national average and second only to Canberra.

Whilst Queensland's population is booming, it is also valuable to note that motor vehicle registration is increasing at an even greater rate. Queensland Transport figures show that from 1999 to the end of 2006 the motor vehicle fleet in Queensland increased a staggering 34.5 percent, up from 2.81 million to 3.78 million. This increase was double the State's population growth which increased from 3.53 million to 4.13 million in the same period, an increase of 17 percent.

Looking forward, the urban development plans released this year by both Brisbane City Council and the State Government would suggest that our tunnel is very well placed to capture further population and traffic growth. In particular, these plans are focused on revitalising suburbs such as Woolloongabba and Bowen Hills, which are located at either end of our tunnel.

In May this year, Brisbane City Council released its blueprint for managing the city's future population growth. It proposes that most new homes, shops and workplaces will be in areas that are already developed. Importantly for our project, it includes a number of key suburbs on the north and south sides of the Brisbane River, including Cherside, Toombul, Nundah, Albion, Bowen Hills, Buranda, Woolloongabba and Upper Mt Gravatt. In July this year the State Government released its *Smart City* concept which identifies 'super precincts' at Bowen Hills, Woolloongabba, South Brisbane and City West. Major redevelopment is planned for each of these suburbs with each expected to be larger than the Brisbane CBD. There is every indication that the State Government and Brisbane City Council are committed to making these plans a reality. As an example, in June this year Brisbane City Council took a decision to fund an increase in the height of our tunnel ventilation outlet at Woolloongabba to enable future high density development.

Brisbane's growing traffic congestion problems are regularly featured in the local media. These newspaper headlines reinforce a survey RiverCity Motorway conducted in May this year to gauge motorist attitudes to the city's growing traffic congestion. Our survey found that 9 in 10 motorists believe that traffic congestion has become worse in the past 12 months and about the same number expect it to get even worse in the year ahead. A study released by Austroads in June this year found that morning delays in Brisbane had increased by 25 percent in 2006. This increase in delays was a staggering 10 times worse than Melbourne and Adelaide. Brisbane traffic congestion has increased so much that delays being experienced by motorists are now almost as bad as Sydney. During March and April 2007 Queensland's motoring body the RACQ conducted a travel time survey along 16 major roads in Brisbane. The survey showed some notable changes in conditions since 1993

- The Pacific Motorway recorded the greatest reduction in average inbound speed of 46.5 percent, over 21 minutes longer.
- Wynnum Road with a 38.2 percent speed reduction, over 20 minutes longer.
- The Pacific Motorway outbound speed reduction of 55.8 percent, over 24 minutes longer.

At our northern connection, the RACQ survey found that motorists travelling inbound on Lutwyche Road between Newmarket Road and Federation Street were reduced to an average speed of 18.6 kilometres per hour. The RACQ report noted that weekday peak hours are rapidly expanding and roads are now nearing gridlock on weekends, for the first time.

RiverCity Motorway Group is continuing to monitor traffic volumes in Brisbane, particularly on roads north and south of the river that are adjacent to our tunnel. North of the Brisbane CBD we are able to report on traffic volumes for Breakfast Creek Road, Inner City Bypass, Abbotsford Road and Lutwyche Road.

South of the Brisbane CBD our traffic surveys include Wynnum Road, Stanley Street East and Ipswich Road. Traffic counts were completed for periods in 2005, 2006 and 2007.

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We are also monitoring traffic on the key river crossings, namely the Story Bridge and Captain Cook Bridge. The Group will continue to monitor traffic during construction.

Traffic volumes on all roads north of the Brisbane CBD have grown between 2005 and 2007.

While 2005 traffic counts are not available for the Inner City Bypass, the growth on this particular road between 2006 and 2007 was very significant at 23.9%. Other changes between 2005 and 2007 include:

- Breakfast Creek Road increased by 5.7%
- Abbotsford Road increased by 7.1%
- Lutwyche Road increased by 0.3%

In summary, we are continuing to see traffic growth on the roads adjacent to our tunnel.

However, this year we have seen our own construction works and construction of the State Government's \$226 million Boggo Road Busway impact on traffic volumes on nearby roads, including Lutwyche Road, Wynnum Road, the Story Bridge and Ipswich Road. An example of this is Lutwyche Road. On the previous slide it showed an increase of more than 6% between 2005 and 2006 but returned to 2005 levels this year. We have seen a very significant 35% increase in trucks using Lutwyche Road and Ipswich Road, which is linked to both construction works and government changes to truck routes. Most importantly, traffic growth remains in-line with forecasts despite construction impacts.

There were in excess of 690 million units issued under the Product Disclosure Statement. In addition to this, almost 47.5 million units were issued under the Distribution Reinvestment Plan. Participation in future DRP's is supported by reserve funds and is also fully underwritten by ABN Amro Rothschilds.

The \$155 million deferred equity from Leighton and Bilfinger Berger is due on completion of construction. As outlined in our PDS, it is our intention to make fixed distributions to investors, equivalent to 6 cents per stapled unit per annum, until 31 December 2011.

The invitation to investors in June 2006 was based on a number of key features: Firstly, we are offering investors an attractive guaranteed return until December 2011, which will likely take us through the construction and ramp-up phases.

Construction risks associated with tunnelling are well known and the Group has implemented a range of measures to mitigate this risk, foremost among these is the fixed price, fixed time contract and the quality of our contractor LBB JV.

As with all greenfield toll roads, the returns to investors will depend on how many vehicles use the tunnel. The Group engaged Maunsell to provide expert traffic forecasts. Maunsell is a world-leader in traffic modelling and we remain confident that the forecasts remain the best available. Brisbane's population, motor vehicle registrations and traffic congestion are all continuing to grow.

The forecast of long-term returns for investors, was in line with recent toll road offers.

Included in our Notice of Annual Meeting was an invitation to investors to submit questions relevant to our meeting today. I can inform the meeting that a total of 12 questions were received from four unitholders. It is perhaps not surprising that the fundamental concern for these unitholders is the Group's unit price continuing to trade below the issue price. I'm sure our unit price is a concern for all investors.

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Whilst there are many variables that contribute to market sentiment and daily movements in share prices, I think it is important to touch on some of the key factors that have been at play since our listing on the ASX.

- An increase in interest rates at the time of our listing was certainly a factor that placed pressure on infrastructure stocks.
- When units were trading below par this, in turn, created a negative perception in relation to the second instalment obligation.
- We have also seen a number of analysts discount our traffic forecasts, seemingly from poor results on other toll roads such as Sydney's Cross City Tunnel. This has been regularly raised in various meetings with analysts and others.

Trading on a fully paid basis appears to have been positive with recent improvement in the unit price.

My fellow Directors and I remain positive in relation to the Group's current outlook. The first 11 months of operation for the RiverCity Motorway Group has been extremely busy, but also very exciting.

Our design and construction partner, Leighton Contractors and Baulderstone Hornibrook Bilfinger Berger Joint Venture should be congratulated for the very good start they have made to construction. Whilst it is early days, the project is proceeding ahead of program and major risks are steadily decreasing.

We remain confident that our traffic experts have provided us with a comprehensive traffic model. All the available data demonstrates that Brisbane's population is continuing to grow faster than the rest of the country. As Brisbane grows, so does its traffic. Traffic volumes on the five major roads that will link directly to our tunnel continue to grow in line with our traffic model forecasts, despite the impact of construction on roads around the project.

Our toll road will also benefit from the Airport Link toll road advancing ahead of our modelling assumptions. This toll road offers improved northern access to our tunnel, which will have a positive impact on our traffic.

Substantial progress has already been made in relation to the development of the tolling system.

All of these factors give us confidence that the Group is well positioned to develop a successful toll road business.

On behalf of my fellow Directors, I thank all investors for their ongoing support and I look forward to keeping you informed of the progress being made by the RiverCity Motorway Group.

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## **Chief Executive Officer's Address**

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Good afternoon. My name is Flan Cleary. I am the Chief Executive Officer of RiverCity Motorway and I will give you an overview of construction progress to date.

I would like to reiterate the Chairman's comments about the positive start to the project.

There is an excellent team of people working on the tunnel who are very focused on meeting the project outcomes. As the last year has passed, the risks in the project have steadily been reduced.

Early construction activities have progressed well, including handover of the required project land by Brisbane City Council, site mobilisation and establishment, detailed surveys, geotechnical investigations, identification and relocation of underground utilities, and the development and approval of traffic management plans.

These are not glamorous items, but they are essential to the smooth progress of construction. An experienced team with a strong focus on planning and risk management has been integral to the substantial construction progress achieved to date.

Following financial close, the design and construction team moved quickly to ensure all major supply contracts were finalised.

By selecting double-shield tunnel boring machines we are able to excavate rock and place the concrete tunnel lining at the same time. This means the tunnelling operation is safer and more efficient. Extensive geological investigations have already been completed and these investigations will continue as tunnelling progresses. It is good to be able to report that Brisbane's hard rock is behaving as expected and tunnelling remains ahead of schedule.

In February 2007, tunnel excavation commenced at Kangaroo Point on the south side of the Brisbane River, four months ahead of schedule.

Eight roadheaders are now operating at both this work site and at Bowen Hills on the north side of the river. To date, these machines have excavated 300,000 tonnes of rock from under Kangaroo Point and Bowen Hills. This is the first of two 4,000-tonne tunnel boring machines that will together excavate 75 percent of the tunnel.

With a 12.4 metre diameter cutting head, equivalent to the height of a four-storey building, and a body that is 250 metres long, these are the largest hard-rock, double-shield tunnelling machines in the world. A team of 21 people per shift will operate each tunnel boring machine 24-hours per day. Each machine is expected to advance up to 20 metres per day. As the machine advances, it cuts out the rock and when it has passed, leaves behind a fully lined and sealed concrete tunnel which has a level roadway for vehicles to drive along.

This view shows the tunnel portal areas at Bowen Hills.

Both tunnel boring machines will start on the north side of the Brisbane River at this location and travel south, finishing at Woolloongabba.

With the manufacture of the two tunnel boring machines being three months early, it has been necessary for the site team to bring forward site works at Bowen Hills. This area is now ready for both tunnel boring machines.

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The machine was first assembled and tested in the factory in Germany, and then dismantled and brought to Australia by ship. The ship spent an unscheduled week 70 kilometres up the Mississippi River avoiding hurricane Dean, but then made good time for the remainder of its journey to Australia.

The arrival of the final sections of this \$50 million machine arrived in Brisbane last month was an important milestone for the project.

The tunnelling team has started re-assembling the machine on-site and we remain on target for it to commence operation in December 2007.

This is the second of the tunnel boring machine which is also utilising Australia's green and gold colours. The manufacture of this tunnel boring machine is also three months ahead of schedule. This machine has passed its factory acceptance testing, been disassembled and sections have already started arriving on site. It is on target to commence excavation in March 2008 again three months early.

Construction is also progressing rapidly above ground. As a former bridge engineer it is pleasing to see bridge construction well advanced with work started on all 18 bridges at either end of the tunnel. Linking with five major roads on the north and south sides of the Brisbane River, the bridges will provide motorists with easy, safe and reliable access as they enter and exit the tunnel.

The project will reach another major construction milestone this weekend when 50,000 motorists travelling northbound on the Pacific Motorway are diverted onto newly construction bridges. This diversion will enable the project team to commence construction of the southern tunnel portal located in between the two carriage ways of the Pacific Motorway. The road widening work on both the Pacific Motorway and Ipswich Road will provide for six new traffic lanes.

Work continues on Shafston Avenue at Kangaroo Point to create entry and exit ramps to the tunnel for motorists travelling to and from the eastern suburbs of Brisbane.

At the northern portal in Bowen Hills, Lutwyche Road is being widened to provide four new traffic lanes — two entering and two exiting the tunnel.

In June this year, work commenced at the project's state-of-the-art precast concrete manufacturing facility in the World War two airport hangers on Brisbane's northside. These heritage listed hangers are now home to the latest concrete and robotic welding technology, making this facility the most sophisticated precast concrete manufacturing plant in Australia. In total, 37,000 tunnel lining segments will be manufactured which together weigh approximately 300,000 tonne.

The construction team has now worked 2.6 million man hours and has achieved these early milestones while continuing to maintain high standards of safety, environmental management and community relations.

Safety is and always will be a key priority for the construction team. To date, the Joint Venture has conducted 5,000 project inductions and 1,000 training programs. These training programs range from rail safety, working at heights and safe handling of tunnelling equipment through to working with small tools and wearing personal protective equipment.

In an Australian first, the project has commenced installing ultra water treatment equipment and two desalination plants. Producing up to 600,000 litres of high quality water per day, these facilities will effectively 'drought proof' the project by eliminating the use of Brisbane's town water supplies for construction activities.

The construction of major infrastructure in a busy urban environment is always challenging, particularly when tunnelling is involved. The project is making every effort to keep the community informed about the works, particularly those residents and businesses located close to the construction works.

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RiverCity Motorway Group is focused on the early delivery of the tolling system.

An international tolling system company, Kapsch, has been selected to supply both the tolling system back office and the roadside equipment. Kapsch is a very experienced system provider and integrator. The company has provided tolling services for many Australian and overseas toll roads, including Melbourne CityLink and WestLink M7 in Sydney. The selection of a single supplier for both the tolling system back office and the roadside equipment will remove a significant interface risk.

We remain on track to define our tolling system requirements by the end of 2007. Achieving this target will enable us to substantially complete the tolling system back office in the first quarter of 2009, which would be an excellent result.

Looking forward, the construction team is expecting to have the detailed design for the project substantially complete by the end of this year.

As highlighted, the first tunnel boring machine will commence operation in December this year. This will be followed by the second machine which is scheduled to start in March next year.

The commencement of the second tunnel boring machine will also mark the start of peak production on the project, with the team increasing to 1,500 people.

In relation to tolling, we remain on track to define our tolling system requirements by the end of 2007. The Group is also working with all other Australian toll road operators to progress interoperability arrangements, in particular with Qld Motorways Limited here in Brisbane.

We will also watch with interest, the ongoing progress of the Airport Link project and the selection of a preferred tender next year.

Finally, RiverCity Motorway Group places enormous value on the outstanding relationships we have with the Brisbane City Council and LBB JV, and it is very pleasing that all parties are working co-operatively to meet the challenges ahead as we deliver this landmark project.

Thank you for your attention and I look forward to keeping you informed of the progress being made on this project.

**For more information please contact Anthony Havers on 0434 567 841.**

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