

31 August 2010

## **RIVERCITY MOTORWAY GROUP - PRELIMINARY FINAL REPORT 30 JUNE 2010**

RiverCity Motorway Group (ASX: RCY), the owner and operator of Brisbane's Clem Jones Tunnel (CLEM7), today released its Preliminary Final Report for the year ended 30 June 2010.

### **Financial Performance**

The Group reported a loss after tax for the financial year of \$1,672m, resulting primarily from a \$1,560m impairment write down of the Group's intangible toll road asset.

In the initial five months of operations, the Group has experienced traffic volumes well below the original traffic forecast provided in the Product Disclosure Statement 2006. In May 2010, the Group appointed Integrated Management Information Systems (IMIS) to provide an expert view on traffic volumes. This assessment is due to be provided in a final format by the end of 2010. At this early stage, the precise reasons for the reduced traffic volumes to date are unknown.

The reduced traffic volumes to date have resulted in a review of the valuation of the CLEM7 toll road for accounting purposes and the Group's going concern.

### **Impairment Assessment**

The reduced traffic volumes experienced since opening on 16 March 2010, the limited historical traffic data available and the possibility of lower traffic over the life of the concession have necessitated the Group assessing the value of the intangible toll road asset for accounting purposes.

The impending IMIS assessment will provide an expert view on future traffic volumes. This detailed traffic forecast will consider factors such as nearby land use, economic and population growth, pricing strategies, Airport Link construction and opening, and growth in traffic across the Brisbane River. This report is expected to be available by the end of 2010.

Given this detailed traffic forecast is not yet available, a series of assumptions have been made in order to estimate future traffic volumes solely for the purposes of the impairment assessment. These assumptions on traffic have been based upon a short history of traffic at three different toll levels, namely toll-free from 16 March 2010 to 5 April 2010, 30% reduced tolls from 6 April 2010 to 30 June 2010 and 50% reduced tolls from 1 July 2010 to the date of this report.

The minimal amount of historical traffic data at a wide range of toll levels presents difficulties in estimating future traffic volumes with a high level of accuracy, at this time.

The assumptions that underpin the traffic estimate for the purposes of the impairment assessment are provided in Note 17 "Non-current Assets – Intangibles" of the Preliminary Final Report. The key assumptions include a 30% discount to the maximum allowable toll for the duration of the remaining 41 years of the concession and linear growth in traffic volumes beyond 2013. Benefits ensuing from the opening of the adjoining Airport Link tunnel, impacts of nearby land use, economic and population growth, pricing strategies and growth in traffic across the Brisbane River have not been assumed in this estimate.

Using these assumptions, the impairment test shows a deficiency in value in use of \$1,560m for the intangible asset. As a result, an impairment of \$1,560m has been taken at 30 June 2010, resulting in an intangible asset value of approximately \$250m. The Group notes that when the independent traffic forecast is released, or as further traffic history is accumulated, the value in use may change.

## Going Concern

Based on traffic volumes during the five months since opening, reduced toll levels, the traffic ramp-up extending beyond the original 18 to 24 month period, operational results and existing cash reserves, the Directors believe the Group is currently able to pay its debts as and when they fall due. The ability for the Group to continue as a going concern will depend upon future traffic levels, toll pricing and arrangements with the Group's financiers.

As at 30 June 2010, the Group had access to cash reserves of approximately \$127 million after the drawdown of \$30 million in cash reserves since opening. For the month of July and August 2010 to date, the Group drew down a further \$10.8m and \$10.0m net from cash reserves. The balance of operational cash reserves at 27 August 2010 was \$106m.

## Review of Operations

- The CLEM7 opened to traffic on 16 March 2010, seven months ahead of schedule and without cost overrun.
- Following an initial 3-week toll-free period, tolling operations commenced on 6 April 2010.
- Since opening, the tunnel operators and systems have been performing in accordance with the Group's Project Deed requirements.
- As at 29 August, FLOW Tolling has 29,000 tolling accounts and 33,400 electronic tags on issue.
- An extensive marketing and communication campaign during the past 12 month resulted in more than 90% unprompted awareness of the CLEM7.

## Traffic Volumes

Average Daily Trips (ADT) on the CLEM7 increased from 21,178 in April 2010 to 27,908 in August 2010, up by 31.8%. This followed a reduction in tolls to approximately 50% of the maximum allowable toll from 1 July 2010.

	6 - 30 April 2010*	May 2010*	June 2010*	July 2010 <sup>#</sup>	1 - 29 August 2010 <sup>#</sup>	% Change April to August 2010
Average Daily Trips	21,178	21,424	22,545	27,618	27,908	+31.8%
Average Workday Trips	22,967	23,746	25,192	30,391	31,713	+38.1%
Average Non-workday Trips	16,577	17,203	16,369	20,759	20,678	+24.7%
Workdays in Period	18	20	21	22	19	-
Non-workdays in Period	7	11	9	9	10	-

\*30% discount applied to all tolls during this period

<sup>#</sup> 50% discount applied to all tolls during this period

Traffic volumes remain well below the original forecast of 60,451 Average Daily Trips (at the maximum allowable toll) one month after opening. Traffic growth is also well below the level required to achieve the forecast of 100,284 Average Daily Trips (at the maximum allowable toll) at the end of the 18 month ramp-up period.

RiverCity Motorway Group Chairman, Robert Morris, said that despite the successful construction and opening of the CLEM7, disappointing early traffic volumes presented significant challenges to the Group and its investors.

“While traffic volumes have increased since opening, current traffic will need to improve markedly over the coming months for the Group to be in a position to meet its ongoing financial obligations after its existing cash reserves are utilised,” Mr Morris said.

“The current situation is serious, but it is very early days in the life of our 41-year concession. The Board and management will continue to focus on building traffic volumes over the coming months. To maximise the number of potential users of the tunnel, tolls will remain at their current reduced level for the remainder of 2010.”

Mr Morris said in addition to building traffic volumes the Group remained focused on effectively managing its revenue and cost base.

“In the short-term, the Group will commence charging fees allowable under our Project Deed for payment channels that are more expensive to operate. This will include introducing the \$0.40 image processing fees to meet the cost of manual image processing. Other opportunities for cost reduction will be considered on an ongoing basis,” he said.

Mr Morris said the expected opening of the adjoining Airport Link tunnel in mid-2012 will significantly improve the CLEM7 connectivity to the Brisbane road network.

“Airport Link opening in 2012 is likely to have a positive impact on CLEM7 traffic volumes. We will be actively exploring options with our lenders to sustain the Group in its current form until after the Airport Link opening,” he said.

***For further information please contact Anthony Havers on 07 3046 4021.***