

21 October 2008

RiverCity Motorway Group – Annual General Meeting 2009

A presentation to the 3rd annual meeting of RiverCity Motorway Group by the Chairman, Robert Morris.

INTRODUCTION

Good afternoon ladies and gentleman. My name is Bob Morris. I will chair today's meeting.

On behalf of the Board of Directors, I would firstly like to welcome you to the third annual meeting for RiverCity Motorway Group.

Joining me on the stage are the Group's two senior executives - Chief Executive Officer, Flan Cleary and Chief Financial Officer, Christine Hayward.

I would also like to introduce my fellow Directors: John Barry, Peter Hicks, Peter Hollingsworth, Ken MacDonald and Bernard Rowley. I have an apology from our remaining Director, Charles Mott, who is presently out of the country.

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.

THE ROAD AHEAD

It is now more than 3 years since we commenced construction of the CLEM7.

As with most journeys, we have experienced a number of ups and downs.

There has been excellent construction progress and the long-term fundamentals of our business remain sound. Despite this, the RiverCity stapled units have continued to trade at disappointing levels.

Factors affecting the stock are thought to be the overall market downturn, negative sentiment to traditional greenfield tollway finance structures, traffic shortfalls with three recently opened tollways and a market overhang from some major investors seeking to reduce their holding.

On the positive side, excellent construction progress has the Group in a strong position to open our road well ahead of the October 2010 contract completion date.

The Group's early focus on business readiness has also ensured that our roadside operations and tolling and customer service are in excellent shape for the next phase of our journey.

Today, I would like to provide unitholders with an overview of the road ahead as we move rapidly towards the next phase; opening to traffic next year.

I will outline the fundamentals underlying our long-term vision, the actions we are taking to maximise traffic when we open, the benefits of early construction completion, our business readiness, financial market considerations and the Group's distributions policy.

CLEM7: A KEY PART OF THE BRISBANE ROAD NETWORK

This slide highlights the critical role the CLEM7 will play in Brisbane's current and future road network.

Our road will connect with six major roads. North of the river we will connect with Lutwyche Road, the Inner City Bypass and the future Airport Link tunnel.

On the southside, we connect with Shaftson Avenue, Ipswich Road and the Pacific Motorway.

The opening of our tunnel, and the other major projects that are currently under way, will transform the way motorists travel around Brisbane.

HIGHLIGHTS 2006 – 2009

Before commenting on the way forward, I would like to briefly look back at some of the highlights during the past three years.

As with previous meetings, I am pleased to report that exceptional construction progress has continued throughout 2009.

On behalf of the Group, I would like to congratulate the Leighton Contractors and Bilfinger Berger Baulderstone Joint Venture for their professionalism and drive to complete the CLEM7 as quickly, and as safely, as possible.

I would also like to commend Lord Mayor Campbell Newman and Brisbane City Council for the genuine partnership that has made the construction phase of the project such an enormous success.

As Brisbane's first major tunnel, we have enjoyed a high level of community interest. From the time our tunnelling machines arrived in pieces from Germany, the people of Brisbane have been with us, tracking our progress and celebrating our milestones.

In another important milestone for Brisbane motorists, this year has seen the successful move to free-flow tolling on the Gateway and Logan Motorways.

There are now more than 1 million electronic tags being used by motorists in South East Queensland. This is very positive for our business because it means that these motorists can use the CLEM7 without making any prior arrangement.

Our market research shows that many motorists who intend to use our tollway are planning to establish tolling accounts when we open.

In another positive sign for our business, dependence on cars continues to grow with the number of vehicle registrations in Queensland increasing to 4.15 million in 2008, an increase of 9 percent since 2006. 70 percent of this growth has been in South-East Queensland.

Finally, we have also seen the start of construction on the Airport Link tunnel. The expected opening of the Airport Link tunnel in mid-2012 will mark the completion of the M7 motorway and unlock the full potential of the CLEM7 project.

Together our adjoining tollways will provide a 14-kilometre freeway standard route from the Pacific Motorway, across the Brisbane River and connecting to the Gateway Motorway at the Brisbane Airport.

BRISBANE TRAFFIC 2006 - 2009

I would now like to comment on the traffic forecast for the tunnel and half-yearly traffic counts that have been undertaken since we commenced construction.

The RiverCity Motorway Prospectus adopted the 2006 traffic forecast prepared by Maunsell Australia.

This forecast was prepared following extensive data collection, modelling of the transport network, consideration of potential network changes, existing and projected population and employment growth, planned urban development, assessment of people's willingness to pay tolls and other economic factors.

The Maunsell forecasting track record is a good one with sound forecasts on other tollway projects, such as Melbourne CityLink, and the M2 and WestLink M7 in Sydney.

The RiverCity Motorway traffic forecast was a comprehensive study and remains the most authoritative estimate of traffic for our tunnel.

BRISBANE TRAFFIC COUNTS 2005 TO 2009

Since 2006, RiverCity Motorway has conducted traffic counts at key locations every six months during construction.

These counts have generally been conducted over 2-week periods and, therefore, represent a sample of traffic numbers but may not necessarily be a reliable indication of future traffic volume. Their purpose has been to provide a 'snapshot' of Brisbane traffic volumes at certain locations and a baseline for reference during the ramp-up period.

It is important to note that these counts can be affected by specific incidents, seasonal factors, construction works, weather, major events and other variables.

The limited duration of the counts means that the results can vary significantly from period-to-period. For example, the 14.9% increase in traffic on Lutwyche Road in the past 12 months is quite unusual and may not be a reliable indication of future traffic growth on Lutwyche Road.

The more consistent trend across other count locations (that is, excluding Lutwyche Road) was low traffic growth.

RIVER CROSSING TRAFFIC COUNTS 2006 TO 2009

The Story Bridge traffic in this year's September survey was counted at 93,624.

This compares to 104,118 for September last year and is actually some 2.9% less than the September 2005 count of 96,435.

The impact of construction activity and perhaps weaker economic conditions arising from the global financial crisis are apparent.

Captain Cook Bridge was counted at 136,566 in September this year - up 1.5% over the September 2005 count.

MANAGING SHORT-TERM TRAFFIC RISKS

I would like now to comment on the challenge in building up our opening traffic during the ramp-up period.

While we would expect traffic on the approach roads to grow following the completion of our construction, the ongoing work on Airport Link may impede the rate at which motorists return to CLEM7.

To mitigate this risk, the Group is working closely with Brisbane City Council, the Queensland Government and the Airport Link team to minimise traffic impacts, especially on Lutwyche Road.

Traffic may also be adversely affected by weaker economic growth arising from the global financial crisis. Despite some signs of economic improvement, the general expectations are for weaker employment, slower urban development, and reduced business activity and consumer spending into 2010. It is hoped, however, that the underlying strength of the Australian economy will reduce these impacts.

The opening of Go Between Bridge and the Gateway Bridge duplication will increase the number of traffic lanes crossing the Brisbane River. While the Go Between Bridge will meet local traffic needs between Milton and South Brisbane, the Gateway Bridge duplication will compete with the CLEM7. Both of these traffic network changes were considered within the PDS traffic forecast. Although, the Gateway Bridge project has had ramps added to feed Kingsford Smith Drive.

These short-term traffic risks emphasise the importance the Group has placed on making the CLEM7 simple, easy and affordable for motorists to use and pay their tolls.

This includes ensuring our tollway integrates effectively with the surrounding traffic network so that motorists enjoy an uninterrupted journey.

We will also offer incentives that will encourage motorists to try our road. We then aim to keep them coming back by providing user-friendly tolling products and a welcoming environment.

FUNDAMENTALS SUPPORTING LONG-TERM SUCCESS

The 45-year concession to operate the CLEM7 underpins the long-term value proposition for RiverCity unitholders.

Brisbane is well positioned to continue growing in terms of population, employment and household incomes.

Brisbane is also one of the most decentralised capital cities in Australia with major residential areas, industrial areas and shopping centres located on both sides of the Brisbane River. The suburbs adjacent to our tunnel also remain key areas for urban renewal.

And much like Sydney's Harbour, the Brisbane River represents an enormous barrier for some 400,000 motorists seeking to cross the river every day.

As I have indicated, motor vehicle registration in South-East Queensland is continuing to grow. This highlights that Brisbane residents remain highly dependent on cars.

CLEM7 will provide a critical connection to 6 major roads and will provide compelling travel benefits. We will be a very important part of the future road network in Brisbane.

As well as providing improved travel, motorists using our tunnel will also be paying almost 50% less on a per kilometre basis than motorists using comparable tunnels in Sydney and Melbourne.

Finally, the Group has long-term and competitive financing in place until 2014.

FINANCIAL MARKET CONSIDERATIONS

RiverCity has fully underwritten and 100% hedged debt to cover the forecast costs to completion of construction.

The risk of any construction cost over-run was mitigated by the fixed-price contract and there are no current reasons to anticipate any over-run.

On opening, the construction debt is replaced by \$1.3 billion of fully underwritten term debt. This debt is hedged to 70 percent. Consequently whilst the quantum is assured, the Group is exposed to changes in interest rates for 30 percent of the facility.

The term debt remains in place until the first refinance of 50 percent in August 2014 and the remaining 50 percent in 2016.

The early stages of operations are also supported by good cash reserves. In addition to the Debt Service Reserve of \$25.9m and Ramp-up Reserve of \$65.3m, the Group anticipates additional cash reserves of some \$65m will be available for working capital, financial licences and funding incentives or unforeseen shortfalls. There is also the Local Area Traffic Management Reserve of \$20.2m which is subject to Brisbane City Council approval.

The global financial crisis has seen significant tightening of bank finance with decreased availability of debt, increased interest margins and more stringent coverage ratios for refinance.

Many infrastructure based companies have had to face reduced dividends, debt shortfalls and new capital raisings.

The fact that the Group's first refinance date is not until 2014 is reassuring, especially as there are widespread signs that the debt market is improving, and margins and coverage ratios are reducing.

Whilst conditions should improve by 2014, most market commentators and financial analysts do not expect a return to the 2006 levels of our original financial model.

The Group is sharply aware of the importance to have timely and expert financial management. We have engaged Goldman Sachs JBWere to provide expert financial advice to assist the Board in management of unitholders interests.

The key financial milestones will be the initial post ramp-up debt service coverage test in 2012 and refinancing in 2014.

BUSINESS FRAMEWORK

The following diagram highlights our key business drivers as we look ahead to 2012 and 2014.

On opening, the Group will be focused on maximising traffic. We will provide easy-to-use tolling products and additional toll incentives to boost traffic.

We also envisage that during the initial stages of ramp-up we will receive a higher than initially expected level of enquiries and demand for tags and accounts. Accordingly, operating costs will initially be higher than expected.

The expected opening of the Airport Link tunnel in mid-2012 will mark the completion of the M7 motorway from the Pacific Motorway in the south through to the Gateway Motorway at the Airport precinct. This will unlock the full potential of the CLEM7 project.

We also expect to see operating efficiencies as a steady level of traffic is achieved.

Following the refinancing in 2014 and 2016 the Group will be in a position to maximise the benefits of the 45-year concession.

ELECTRONIC TOLLING

The introduction of electronic tolling has transformed tollway operation.

Tollway operators benefit from a low cost means of collecting tolls, while individual users, business and government benefit from improved travel and increased network efficiency.

For regular tollway users installing an electronic tag is quite simple and efficient. However, the need to telephone, go online or visit a customer service centre to purchase a trip pass can be viewed by occasional tollway customers as a hassle.

This is evident when you compare the ease of simply turning up to use a road and tossing some coins into a bucket.

With this in mind, I would like to provide some insight into the direction RiverCity Motorway is taking in order to maximise our traffic.

MAXIMISING TRAFFIC ON OPENING

To be successful, new electronic tollways such as the CLEM7 need to make a significant upfront investment in promotion and customer service.

This investment is critical to building a strong traffic base that is made up of both regular and occasional road users.

Our FLOW Tolling system will be the newest in Australia. We are committed to it being the most user-friendly.

Our system will provide simple and easy-to-use products and payment options for regular and occasional users.

It will also focus on attracting motorists to use our road first, experience its benefits, and then match them to the right tolling product

The Group will implement an effective promotion in the lead-up to opening. We will seek to attract all customer groups with toll credits, easy account set-up, a no-fee period and a welcoming environment.

DRIVE INCREASED TRAFFIC BY KEEPING FEES LOW

Our approach on opening will be to drive increased traffic by keeping fees and charges low.

Much as we have seen across the banking and telecommunications industries, tollway customers across Australia are resisting tolling products that include fees and charges that are in addition to the toll.

This includes account set-up costs, extra fees to read number plates and penalties for late payment, which are particularly an issue for occasional users.

Consumer aversion to added fees and charges has become more acute as we have seen unemployment rise, the economy slow and household budgets come under increased pressure.

In practice, we believe that fully electronic tollways find it difficult to cater for occasional users who make up around 20 percent of the traffic.

One of our key aims is to maximise our traffic by attracting this group of potential customers.

DISTRIBUTIONS POLICY

I would like now to comment on the Group's distributions policy.

In September 2008, the Board took a very difficult decision to suspend the intended fixed distributions until after the start of tolling operations.

The original financial model adopted an 18 month ramp-up and forecast revenue sufficient to meet costs, service debt and exceed the financier covenants for release of distributions by the quarter ended December 2012. Actual conditions will determine if distributions start before or after that date.

Following the 18 month traffic ramp up, net earnings and excess reserves would then be progressively released to unitholders provided debt covenants have been complied with and the Group's capacity to refinance in 2014 is maintained.

The Board does not intend increasing debt levels in order to fund future cash distributions.

I would like to assure unitholders that the Board and management team are very focused on attracting traffic to the project to enable the earliest commencement of distributions.

We now look forward to the operations phase as the project opens to traffic in 2010.

I would now like to hand over to the Group's Chief Executive, Flan Cleary, to provide an overview of construction and the progress being made with the various tunnel operating systems.

SUMMARY

Thank you Flan and Christine.

2010 will be an exciting time.

Unitholders are set to become owners of a new landmark infrastructure project that is important to the future development of Brisbane.

The Board and management will be focussed to ensure smooth operations, safe travel, efficient and friendly tolling, good customer relationships and achieving maximum traffic usage to underpin commercial success.

We look forward to this next phase of our journey, intent on making the CLEM7 deliver the expectations of our unitholders, customers, Brisbane motorists and Brisbane City Council.

CLEM7: A KEY PART OF THE BRISBANE ROAD NETWORK

Before taking general questions from unitholders, I would like to return to one of my earlier slides that I believe demonstrates how the CLEM7 will open up a new level of connectivity for Brisbane:

If you are a motorist travelling from the Gold Coast or southern suburbs of Brisbane via the Pacific Motorway, you will be able to use our tunnel to cross the River and fan out via the Inner City Bypass to the north west or north east.

Or, you could travel further north via Lutwyche Road. When Airport Link opens you would be able to travel uninterrupted to the Brisbane Airport and Gateway Motorway north.

This travel benefit will similarly serve motorists using Ipswich Road and Shaftson Avenue.

Motorists travelling from the northern suburbs using Lutwyche Road will be able to cross the River and access the south-east via Shaftson Avenue, or travel south via the Pacific Motorway and to areas served by Ipswich Road.

Similarly, the inner northern suburbs served by the ICB will enjoy improved travel to the southern suburbs of Brisbane and the Gold Coast.

The opening of Airport link will open access to the south from the Airport, the northern Gateway Arterial and areas served by the future Kedron Interchange.

These are the very real and compelling travel benefits that will drive the long-term success of our business, and make the 45-year journey positive for our unitholders.