

8 September 2008

## **SUSPENSION OF DISTRIBUTIONS DURING REMAINDER OF FIXED DISTRIBUTION PERIOD TO PRESERVE LONG-TERM UNITHOLDER VALUE**

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The Directors of RiverCity Motorway Group advises investors that due to the effect market conditions have had on the Group's unit price, the intended distributions have been suspended during the remainder of the Fixed Distribution Period (FDP).

The Group had intended to make distributions equivalent to 6.0 cents per Stapled Unit per annum until 31 December 2011.

The Directors remain confident that the Group is well positioned to establish a sustainable toll road business and intend to make distributions to investors after the start of toll road operations in 2010. Those distributions will be based primarily on the surplus of toll receipts over operating costs.

The adverse market conditions do not have any bearing on project delivery, which is continuing ahead of expectations. The company has long-term financing in place, construction is proceeding ahead of schedule and Brisbane's population, employment and traffic growth are all in line with the Group's forecasts.

Chairman, Bob Morris, said the decision to suspend the intended distributions until after the start of toll road operations had been extremely difficult, but was necessary to preserve long-term unitholder value that would be eroded by the continued interplay between the Group's low unit price, its Distribution Reinvestment Plan (DRP) and use of the underwriting facility.

"The Group's continuing low unit price is resulting in substantially more units being issued under the DRP than expected. For example, the issue of units under the DRP at a 30 cent unit price will mean issuing over 3 times the number of units than would be done with units priced at par value of \$1.00. Issuing units at sub-30 cents to pay distributions represents very expensive capital that effectively undermines long-term unitholder value," Mr Morris said.

"The cash outlay for each distribution has also risen sharply since the Group's ASX listing in 2006. This follows an increase in the number of investors opting for cash distributions. For the most recent distribution, 66% of investors opted for cash, well above the base model forecast of 20% cash distributions.

"Given the high levels of investors opting for cash, the cash component of future distributions would need to be funded primarily through the DRP underwriting facility provided by ABN AMRO. At the current low unit prices the underwriting is an expensive way to raise capital, dilutes existing unit holdings and results in further downward pressure on the RCY share price.

"Options to reduce the 3.0 cent half yearly distributions or to use a mix of cash from the underwriting were considered but all undermined long term unit value," he said.

Mr Morris said while the DRP cash reserve would fund one (1) more 3.0 cent distribution at the current level of participation, the Board considers that these funds would be best retained to assist business development during the ramp-up period.

"The decision to suspend the remaining distributions until after the start of toll road operations in 2010 had been extremely difficult and one that was not taken lightly, Mr Morris said.

“My fellow Directors and I recognise that the intended distributions during the FDP were a primary attraction for investors during the construction and early operation of the toll road. We considered all possible options, but these alternatives failed to look after long term unit holder value with adverse impacts from dilution of unit holdings and the cost of raising cash through the DRP underwriting.

“The Directors believe it would be irresponsible to continue issuing units to fund distributions in the hope that the market, our unit price and DRP participation levels would all recover and this particular issue would then go away.

“It is in the best interest of unitholders that the intended distributions are suspended at least until the start of toll road operations in 2010 in order to preserve the long-term value offered by our 45-year toll road business. “

The Directors and management remain confident that the company is well positioned to establish a sustainable toll road business:

- construction of the tunnel continues ahead of schedule;
- the tolling system and business operations are well advanced;
- Brisbane is booming with population growth and employment growth well ahead of the national average;
- traffic pressures are increasing every day; and
- community support for our road continues to grow.

“All of these factors demonstrate that the fundamentals for our business remain strong,” Mr Morris said.

**- ends -**

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## RiverCity Motorway Group

Suspension of intended distributions during the remainder of the Fixed Distribution Period

**8 September 2008**



## Suspension of Distributions

- PDS June 2006 states intention to make Distributions to investors equivalent to 6.0 cents per Stapled Unit per annum until 31 December 2011
- Assumed a stable equity market and an improving share price based on the reducing risk profile of the asset as it nears completion
- Previously declared 4 half-yearly distributions to investors using a mix of DRP issue, cash from the DRP Reserve and the DRP underwriting facility
- Cash component of 3 distributions were funded using DRP Reserve and one distribution was funded by the Group's \$238 million underwriting facility
- \$19 million remaining from the \$48.5 million DRP Reserve
- \$228 million remaining from the \$238 million underwriting facility

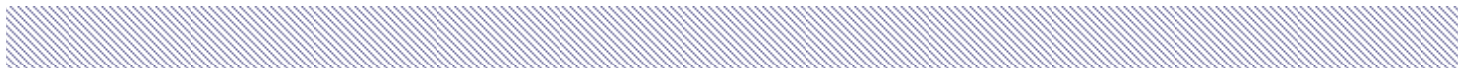
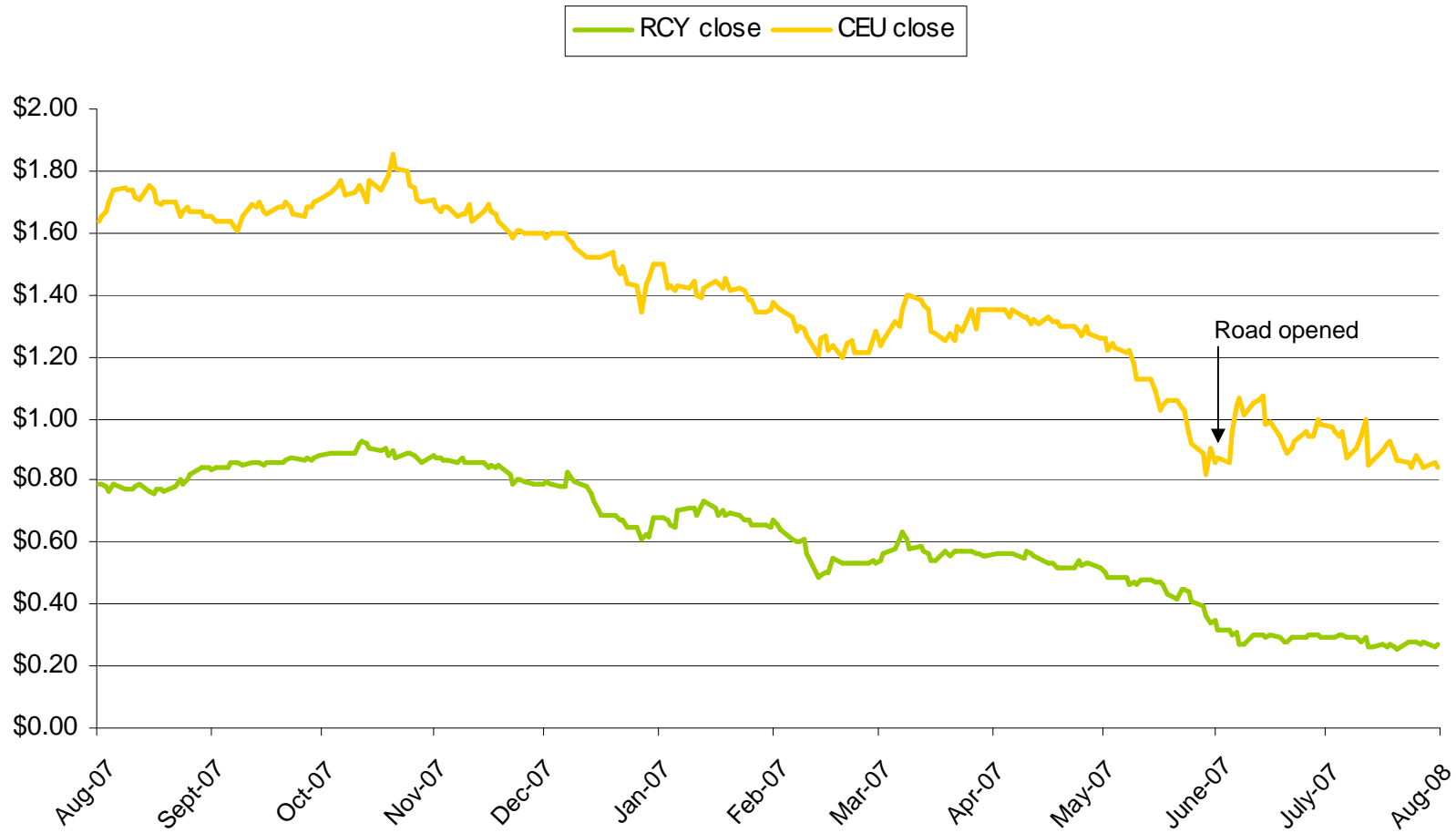


## Major changes in market conditions since June 2006

- Analysts have lowered unit price valuations:
  - 6 interest rate increases since August 2006
  - higher returns sought across the market
  - perceived higher risk of new toll roads
- Traffic results for Cross City Tunnel and Lane Cove Tunnel in Sydney and EastLink in Melbourne below forecasts
- Impact of global credit crunch since January 2008
- Market concerned with debt being used to fund distributions



# 12 month share price performance of greenfield toll roads

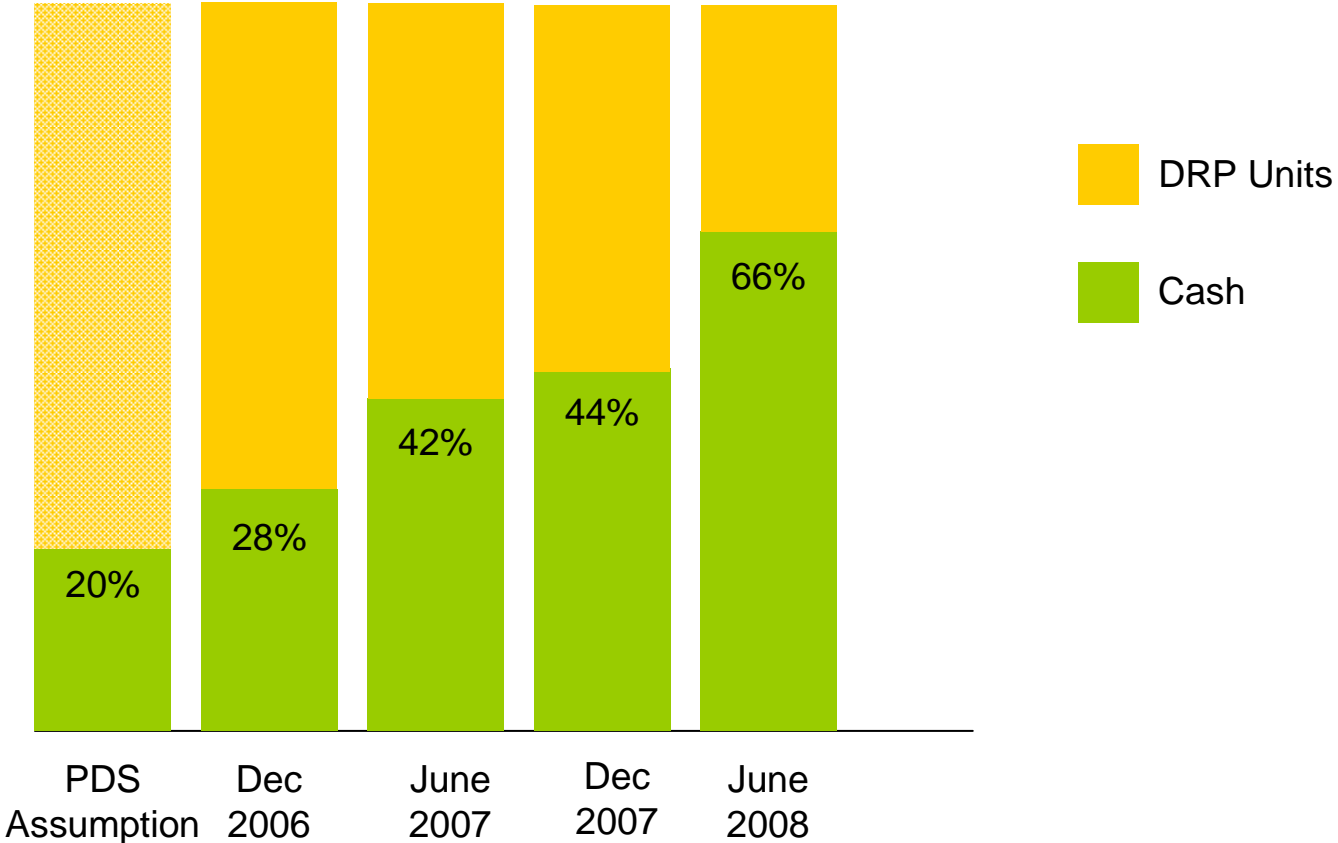


## Quantum shift in most recent distribution

- 66% of investors opted for cash distribution
- Well above base model forecast of 20% cash distributions
- \$15 million cash payout – 3 times base model
- If underwriting facility had been used instead of DRP Reserve:
  - 55 million additional units issued to underwriter to sell into market in order to fund cash distributions
  - Historic average trading volumes of 1 million RCY units per day
  - Therefore, significant and sustained downward pressure on RCY unit price



# Increase in unitholders requesting cash distributions since 2006



## Implications for investors if distributions continued

- Continuing low unit price resulting in substantially more units being issued under the DRP than expected - expensive means of raising capital
- 6.0 cent distribution represents a 20% dividend yield on units issued at 30 cents – expensive and unsustainable
- Significant increase in investors opting for cash distributions
  - 3 times base model forecast
- Cash component of future distributions would be funded primarily through the DRP underwriting facility
  - dilute existing unit holdings
  - place significant and sustained downward pressure on RCY unit price
- Considered options to reduce the 3.0 cent distributions or to use a mix of cash from the underwriting, but all undermined long-term unit value



## Summary

- Extremely difficult decision
- Critical decision to preserve long-term unitholder value
- Directors and management remain confident that the company is well positioned to establish a sustainable toll road business:
  - construction continues ahead of schedule
  - tolling system and business operations are well advanced
  - Brisbane is booming and its traffic pressures are increasing every day
  - community support for our road continues to grow
- Directors intend to make distributions to investors after toll road operations commence in 2010 – those distributions will be based primarily on toll receipts over operating costs

