

22 November 2010

RiverCity Motorway Group – Annual Unitholder Meeting 2010

A presentation to the 4th Annual Unitholder 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 fourth annual meeting for RiverCity Motorway Group.

I would like to introduce my fellow Directors: John Barry, Peter Hicks, Peter Hollingsworth, David Howell, Ken MacDonald and Bernard Rowley.

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

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.

As with previous meetings, Our Notice of Annual Unitholder Meeting invited unitholders to submit any questions they would like addressed today.

The Group received questions from 18 unitholders. The most frequent questions we have received from unitholders, include:

What is the current RiverCity Motorway business position?

What action is the Board taking?

Is there a future for my equity?

Why are traffic volumes so far short of the original traffic forecast?

Is the business being well run?

I have sought to respond to most of those questions in my formal address to the meeting.

AGENDA

Despite the successful construction and opening of the CLEM7, the performance of the company since opening has been very disappointing.

Today, I will provide unitholders with an overview of our current business position. This will include current traffic volumes and the factors that have contributed to the shortfall in traffic compared to the original forecast. I will also outline the rate we are drawing down on our cash reserves.

The immediate and serious financial challenges facing our business means that it is necessary for the Group to secure a Standstill Arrangement with our banks in order for the company to continue operating in its current form.

Our aim is to secure an arrangement that would sustain the Group through until after the opening of the Airport Link tunnel.

The Group's Chief Executive Officer, Flan Cleary, will outline the performance of our roadside and tolling operations since opening. Flan will also provide an overview of the businesses priorities, including actions to increase revenue and reduce costs.

Our Chief Financial Officer, Christine Hayward, will then outline the Group's financial result.

OVERVIEW OF CURRENT BUSINESS POSITION

As I have said, the performance of RiverCity Motorway has been very disappointing during our first 8 months of operations.

In October the CLEM7 attracted just over 28,000 trips per day. This is approximately 30% of the original traffic forecast. The tolls during this period were also heavily discounted, with cars paying \$2 compared to the maximum car toll of \$4.28 that we are permitted to charge under our Project Deed with Brisbane City Council.

To date, revenue has not yet covered operating cost, making it necessary for the Group to drawdown on our cash reserves to cover both the operating shortfall and interest payments on the debt.

As at 31 October 2010, the Group had access to approximately \$86 million in unrestricted cash reserves. This follows the drawdown of approximately \$8m to \$10m from the cash reserves each month since opening.

The Group expects revenue to cover our business operating costs, excluding interest payments, on a 6 monthly rolling basis from May 2011. We do not anticipate being in a position to meet interest payments beyond September next year. In essence, the existing cash reserves will be depleted by required interest payments over that period.

Given these circumstances, the Group's capital position is unsustainable. The only option presently available to preserve the position of unitholders is for the Group to enter into a Standstill Arrangement with our banks.

A Standstill Arrangement provides a period of time during which the Group would not be required to pay the full interest payments, provided we meet a number of conditions regarding the conduct of the business.

These arrangements are not permanent and do not provide a full solution – they do, however, provide the additional breathing space to enable the Board and management to optimise the performance and value of the Group

The Directors and management have already commenced discussions with our banks. The banks have also formed a working group and appointed advisers to assist them in this process.

SOLVENCY ISSUES

The Directors must comply with regulations and cannot allow the Group to trade when insolvent. For the 30 June accounts, Directors assessed that funds were sufficient to meet all financial obligations for the next 12 months – that was clearly met by the Group's cash reserves.

The accounts were issued on a liquidation basis recognising that an arrangement with our banks would be necessary beyond that horizon.

In October, the Group put forward a proposal to our banks to implement a Standstill Arrangement. Under this proposed Standstill Arrangement the Group's interest obligation would move to a "Pay if You Can" basis.

The Bank Syndicate group has established a working group and appointed an independent adviser, a group called 333 Advisory.

Without a Standstill Arrangement, or some alternative accommodation from the Bank Syndicate, it is unlikely that the Directors will be in a position to sign the 31 December 2010 accounts, effectively requiring the appointment of an Administrator and Receiver. If this occurs, it is unlikely there would be any value for equity.

THE CASE FOR A STANDSTILL ARRANGEMENT

The maximum performance and value of the CLEM7 will occur when the tunnel is a more established part of the Brisbane road network, the ramp-up in traffic volumes is complete, the Airport Link tunnel is open and the maximum toll we are permitted to charge is applied.

Our aim is to secure an arrangement that would go through until at least December 2012. This would take us to 2 years and 9 months after the opening of our road.

This will also take us to 6 months after the opening of the adjacent Airport Link tunnel, which is planned to open in June 2012.

Under the Standstill Arrangement the Board and management would continue to apply their expertise and maintain close liaison with our banks and their Adviser.

The Group would also implement a Business Plan during this period that continues to drive increased revenue and cost savings.

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STANDSTILL ARRANGEMENT TIMETABLE

As I have indicated, the Group has put forward a proposed Standstill Arrangement to our syndicate of 24 banks.

The banks have also established their own working group and appointed an independent adviser.

RiverCity Motorway Directors and management have been meeting regularly with the banks. We have also recently briefed the banks individually and the Group continues to provide information to the Adviser.

The IMIS Stage 2 traffic forecast has now been provided to the banks. The final traffic forecast is due by the end of the year.

By the end of November an updated Business Plan will have been prepared by RiverCity, the Adviser and the banks. Also, the Adviser will have prepared its report for the Bank Syndicate.

Our aim is to achieve approval of the Standstill Arrangement by the end of December. We require the unanimous approval of the 24 banks who make-up the Bank Syndicate. If we do not achieve this unanimous approval then it is likely that an Administrator would be appointed.

BRISBANE TOLL ROAD NETWORK

The CLEM7 is the first new toll road to open in Brisbane for 20 years. It is also the City's first privately operated toll road.

The Brisbane toll road network will expand significantly in the next four years. In July this year Brisbane City Council opened the Go Between Bridge, which provides an additional bridge connecting Milton and South Brisbane.

In June 2012, the Airport Link tunnel will connect to our northern entry and provide motorists with an uninterrupted journey to the Brisbane Airport, the thriving commercial "Trade Coast" area, and northern suburbs served by the current constrained network.

The Queensland Government is also planning to privatise the Gateway and Logan Motorways in 2012.

Construction is also scheduled to commence on the Northern Link tunnel, which is scheduled to open in 2014.

The full potential of the CLEM7 should be unlocked by the opening of the adjoining Airport Link tunnel. It is, therefore, imperative that we sustain the Group in its current form during the intervening two years.

PDS TRAFFIC FORECAST

The original CLEM7 traffic forecast was prepared by one of Australia's leading traffic forecasters AECOM, formerly Maunsell.

The company has had a strong track record forecasting traffic volumes on other greenfield toll roads, including Melbourne CityLink, and the M2 and WestLink M7 in Sydney.

The traffic forecast for the CLEM7 was comprehensive and based on the information and data available at the time.

The shortfall in actual traffic volumes is a disappointing result. The RiverCity Motorway Group Public Disclosure Statement identified that traffic volumes and revenues could be adversely affected by factors such as:

- The occurrence and timing of other road projects in Brisbane;
- Problems integrating the tunnel and other parts of the local road transport network and changes to the surrounding road network, for example, no inclusion of a T3 lane on the Story Bridge;
- Demographic and economic conditions;
- Changing travel patterns and habits;
- The expansion factors used in the forecasts;
- The penetration of electronic tolling into the network;
- Social instability and other political and economic developments;
- Community opposition to the tunnel; and
- Industrial and residential shifts in the area of Brisbane that the tunnel services.

At last year's annual meeting I advised unitholders that there had been a lack of traffic growth on the river crossings and adjacent inner city roads between 2006 and 2009.

Unitholders were also advised that we faced a number of other short-term traffic risks. This included Airport Link construction and weaker economic growth following the global financial crisis resulting in rising unemployment, slower urban development and reduced business activity and consumer spending.

While these factors were highlighted during the construction phase, it was not possible for the Board to predict with any certainty the impact they would have on actual traffic volumes following opening.

Unfortunately, actual traffic volumes appear to have been adversely affected by a number of the traffic risks identified.

ACTUAL TRAFFIC VERSUS FORECAST

This slide provides a comparison of actual traffic and the AECOM forecast.

Average Daily Trips (ADT) on the CLEM7 increased from 21,178 in April 2010 to 27,595 in July 2010, up by 30.3%. This followed a reduction in tolls by approximately 50% from 1 July 2010.

Average Daily Trips (ADT) on the CLEM7 increased to 28,419 in September 2010, six months after the commencement of tolling. Average Daily Trips (ADT) in October 2010 was 27,876.

Traffic volumes remain well below the original forecast of 90,676 average daily trips 6 months after opening, with motorists assumed to be paying the maximum allowable tolls.

Traffic growth is also well below the level required to achieve the forecast of 100,284 ADT at the end of the 18 month ramp-up period.

FACTORS CONTRIBUTING TO SHORTFALL IN TRAFFIC VOLUMES

The Group has received preliminary advice from traffic experts, IMIS; however it is not possible to provide an indication of forecast traffic volumes until the receipt of their final report in December.

I would, however, like to outline for unitholders a number of the factors that are likely to have contributed to the shortfall in actual traffic volumes compared to the original forecast.

Lower than expected traffic growth in Brisbane's inner city since 2005 appears to be a significant factor. The number of trips being made on the bridges crossing the Brisbane River has remained flat. As an example, in recent years the Captain Cook Bridge recorded annual growth in traffic of 0.4% per annum, which is well below the average growth on Brisbane roads.

Adverse economic conditions following the global financial crisis are also a contributing factor. Real Financial Demand in Queensland has fallen, while unemployment has increased to above 5%. Fuel prices have also increased by approximately 20% between 2005 and 2009.

In recent years the use of public transport in Brisbane has also increased. In 2006, the use of public transport increased by 10%. This compares with typical growth of 2 to 3%.

There is also some indication of less trip generation in the inner city area due to factors such as car parking constraints and slower development.

While the CLEM7 has markedly increased the number of traffic lanes crossing the Brisbane River, capacity constraints on the CLEM7 approach roads remain an issue.

From 2006 to 2009 CLEM7 construction activity affected our feeder routes, including Lutwyche Road, the Inner City Bypass, Shafston Avenue, the Pacific Motorway and Ipswich Road.

Airport Link works have continued to impact feeder routes and will continue until opening in 2012. In particular, our key northern feeder route, Lutwyche Road and Gympie Road, have experienced heavy delays in the morning peak.

It is important to note that the opening of Airport Link will mark the first occasion when the approach roads for CLEM7 should be free of traffic congestion caused by construction.

During the initial 3-week toll-free period, there was an average of 59,109 trips per day on the CLEM7. After the toll-free period, the toll was discounted from \$4.28 to \$2.95 for cars. Despite discounting tolls by approximately 30% the number of daily trips reduced to 21,178 when tolling commenced in April.

Motorist feedback was that the level of the toll was still a key barrier despite the fact that the CLEM7 offers travel time savings of up to 20 minutes and better reliability than the existing surface roads.

On 1 July, the Group further reduced all tolls on the CLEM7 with cars paying \$2 per trip. This resulted in Average Daily Trips of 27,595 in July 2010, which was 22.5% higher than June 2010. This increase in traffic volumes highlighted the price sensitivity to toll levels by Brisbane motorists. Since July, traffic volumes have continued to grow but at a much lower rate.

Given the financial challenges facing our company, the Directors took a decision that it was no longer possible to absorb the cost of maintaining the \$2 car toll. The toll for a car increased from \$2 to \$3 on 15 November. It is pleasing that the traffic volumes have held-up during this first week.

In addition to price sensitivity to toll levels, CLEM7 motorists also appear to have a different perception of value compared to motorists in Sydney and Melbourne. In those more established toll road markets motorist don't only place a value on the time saved, but they place additional value on benefits such as reliability, connectivity and the driving experience. In fact, those benefits are usually adopted as the equivalent of 5 to 6 minutes additional time savings. That doesn't appear to be the case on the CLEM7, where motorists expect greater time savings because they perceive less value in the other road benefits I have outlined. The impact appears most apparent on our Inner City Bypass connection to and from the west where volumes are minimal. This difference in perceived value may change over time.

Differences in the road network are also contributing factors. In particular, the Gateway Motorway duplication was assumed to occur in 2011. This has effectively being in place for much of this year. The final design of this road has also improved access to Kingsford Smith Drive. The Go Between Bridge, formerly named the Hale Street Bridge, opened in July this year. The original forecast assumed its opening by 2016.

The original forecast also assumed a mixture of traffic management measures, including allocation of lanes on Main Street and the Story Bridge for urban renewal and provision for buses and high occupancy vehicles. These traffic management measures have not been implemented.

The original traffic forecast assumed that weekday traffic would be 13.1 times the peak hour traffic, which was in line with other connecting roads. Actual weekday traffic has been 12 times with the \$2 car toll, IMIS expect this to reduce further as tolls are increased. Essentially, this means there are fewer motorists travelling in non-peak periods than was forecast.

It also important to recognise that these factors don't operate in isolation they, in fact, have a compounding effect. So, lower traffic growth on the bridges crossing the river means fewer delays for motorists using these free alternate routes. Less delays results in less time savings using the CLEM7, which in turn reduces the motorist's perception of value.

INDICATIVE CONTRIBUTION TO TRAFFIC SHORTFALL

My final slide provides a ballpark indication of the contribution the major factors have made to the shortfall in traffic volumes.

The most significant of these are the lack of road traffic growth on the river crossings and the willingness of Brisbane motorists to pay tolls.

The differences in the road network and fact that few motorists are travelling in non-peak periods both contribute to a lesser extent.

In May 2010, the Group appointed independent traffic adviser, IMIS, to provide an expert view on future traffic volumes. This forecast will consider factors such as nearby land use, economic growth, pricing strategies, Airport Link construction and opening, growth in traffic across the Brisbane River and suppressed demand. The final IMIS traffic forecast is due by the end of the year.

Given the current traffic shortfall it is apparent that CLEM7 traffic volumes would need to more than double for there to be any prospect of recapitalisation to preserve equity in the project. The preliminary advice from IMIS suggests this level of traffic growth would be extremely challenging.

Securing a Standstill Arrangement with our banks at least maintains the possibility of preserving your investment.

I would now like to hand over to the Group's Chief Executive, Flan Cleary, to provide an overview of operations and business priorities.