TRANSURBAN CITY LINK

TRANSURBAN CITY LINK LIMITED ANNUAL REPORT 2000

Annual Report 2000

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Contents

02 Melbourne City Link Project
04 Report of Chairman and Managing Director
14 Corporate Governance
19 Project Accounts
20 Directors' Report
30 Statement of Financial Performance
31 Statement of Financial Position
32 Statement of Cash Flows
33 Notes to the financial statements
54 Directors' Declaration
55 Independent Audit Report
56 Security Holder Information

Melbourne CityLink project

Project Outline

The Melbourne City Link Project (the Project) involves the financing, design, construction, marketing, operation and maintenance of 22 kilometres of privately developed toll road linking the north-western and south-eastern suburbs of Melbourne.

The Project consists of two major sections: the Western Link which connects the Tullamarine and West Gate Freeways, and the Southern Link which connects the Monash and West Gate Freeways. The Exhibition Street Extension provides an additional link between the Central Activities District and the Southern Link at the Punt Road Interchange.

The Project utilises an automatic cashless tolling system, comprising electronic tags in vehicles, overhead toll gantries at various points on the Link, roadside control equipment and central toll computer facilities. At 30 June, there were 371,582 account holders, of which 10,051 were in the commercial sector. These customers have been provided with 531,702 e-TAGs. It is anticipated more than 600,000 tags will be in use once the Link is fully operational.

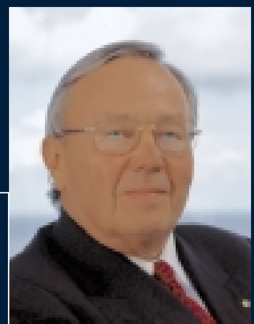
Project Structure

The Project is being undertaken by Transurban City Link Ltd (the Company) and The Transurban City Link Unit Trust (the Trust). The Company and the Trust have entered into a Concession Deed with the State of Victoria pursuant to the Melbourne City Link Act 1995.

The Trust is responsible for the design and construction of the Tullamarine Freeway section and part of the Monash Freeway section of the Project. The Trust has raised funds under the Project Debt Facility, the CPI Bond Facility and the Mezzanine Note Facility for the purpose of construction and to provide loans to the Company to fund construction and other costs. Land leased to the Trust for the purposes of the Project is sub-leased to the Company.

The Company is responsible for the design and construction of the remaining sections of the Project and now operates and maintains the Link.
The Company has raised debt funds for construction under the Infrastructure Bond Facilities. Investors also subscribed $510 million of equity for the Project.

The equity securities of the Company and the Trust have been “stapled” into 510 million parcels consisting of one share in the Company and one unit in the Trust. The individual securities cannot be traded separately.




Report of the Chairman and Managing Director

Overview of the Year

The year to 30 June 2000 saw the commencement of the operating phase of the Project.

The period was marked by a number of significant achievements, but also major problems arising from late delivery of the Western Link and the Southern Link by Transurban's contractor, Transfield Obayashi Joint Venture (TOJV).

Important achievements included:

- Opening of the Western Link on 15 August 1999.
- Partial opening of the Exhibition Street Extension (renamed Batman Avenue), providing access to Melbourne's sports precinct while the Southern Link remains under construction.
- Commencement of tolling using Australia's first fully electronic toll collection system.
- Opening of the Domain Tunnel on 16 April 2000.
- Takeover of full responsibility for CityLink customer services from Translink Operations (TLO).
- The distribution of more than 260,000 e-TAGs, taking the total number of tags on issue to over 530,000.
- Negotiation of a series of "Standstill Agreements" with the TOJV relating to a dispute over liquidated damages under the Design & Construct (D&C) Contract. This allowed the parties to focus on project completion and avoided the need for Transurban to draw on TOJV's securities.

Key delays to the completion of CityLink by the contractors included:

- The late delivery of the Central Toll Computer System (CTCS), which prevented tolling of the Western Link until eight months after its contracted completion date and four and a half months after the section opened to traffic.
- A delay in the opening and tolling of the Domain Tunnel and Monash Freeway sections of the Southern Link until three months after the contracted completion date for the entire Southern Link.
- The continuing unavailability of the Burnley tunnel due to the need to undertake major repairs to the floor slabs.

These delays have had a significant adverse impact on the financial performance of the Company and have also been the basis for a claim by Transurban against the TOJV for liquidated damages under the D&C Contract. The dispute over this claim has placed significant commercial pressures on all parties to the project.

At 30 June 2000, four key challenges remained:

- Opening the Burnley Tunnel and completion of the project.
- Increasing traffic and revenue to meet or better prospectus projections.
- Resolving the claim for liquidated damages with the TOJV.
- Reducing customer service operating costs to the levels projected in the Base Case Financial Model.

The Company's efforts are firmly focussed on meeting these challenges.

Financial Results

Statement of Financial Performance

Overview

Amounts shown in the Statement of Financial Performance for the year ended 30 June 2000 relate to the period from 3 January 2000 to 30 June 2000. In the period from 1 July 1999 to the commencement of tolling on the Western Link on 3 January 2000, the combined entity derived no net revenue and all costs were capitalised. The total amount capitalised in this period was $173.0 million. The components of this amount are set out in the table on page 7 of this report.

The loss from ordinary activities before tax shown in the Statement of Financial Performance is $105.2 million. No income tax was applicable to this loss, so that the loss from ordinary activities after income tax was also $105.2 million.

The results do not include the $92 million received under the Standstill Agreements entered into with the TOJV in connection with the dispute over delays to project completion.

The primary causes of the loss were:

Below forecast revenue due to:

- The delays to the opening of the Southern Link. In addition to loss of Southern Link revenue, these delays also contributed to lower than forecast usage of the Elevated Roadway and Bolte Bridge sections of the Western Link.
- The discounting of tolls on the open sections of the Southern Link and a reduced Day Pass price while the Burnley Tunnel is not open.
- Free toll credits issued to initial customers.

Higher than forecast operating costs due to:

- Inefficient workflow processes in the customer service organisation taken over from Translink Operations.
- An underestimation of the peak levels of customer service demand caused by the opening and tolling of sections.
- Delays in delivery of functionality of the Central Toll Computer System, which necessitated the use of expensive manual processes as a replacement and delayed cost recovery by way of account and toll fees.

Revenue

Revenue of $105.3 million comprises $29.9 million of toll revenue (net of $5.0 million of free toll credits), $1.2 million of revenue from the outdoor advertising contract with Cody Link and $73.3 million of interest income. Toll revenue forecast in the Base Case Financial Model (BCFM) for the period covered by the Statement of Financial Performance was $91.5 million. The contributions to the shortfall in toll revenue of the major factors identified above are quantified in the following table:

Factor	Contribution to Toll Revenue Shortfall $ million
Delays to opening of Southern Link	50.0
Free toll credits	5.0
Discounting of tolls and Day Passes	6.6
Total	61.6

This shortfall forms a part of the amount which is being claimed by Transurban from the TOJV under the Liquidated Damages provisions of the D&C Contract as a result of the delays to Completion of the Southern Link.

Operating and Administration Costs

Operating costs of $40.1 million comprise $33.2 million of customer service costs and $6.9 million of operations and maintenance costs. The costs forecast in the BCFM for these activities for the corresponding period were $4.3 million and $5.8 million respectively. The major variance was in the area of customer service costs ($28.9 million) and the contribution to this variance of the major factors identified above is set out in the following table:

Factor	Contribution to Customer Service Cost Variance $ million
Inefficient workflow processes	7.4
Underestimation of peak demands	8.0
Cost recovery and lack of CTCS functionality	13.5
Total	28.9

This variance forms a part of the amount referred to above being claimed by Transurban from the TOJV.

Administration costs shown in the Statement of Financial Performance for the period are $11.0 million.

Borrowing Costs

Borrowing costs were $115.4 million. These reflect the $454 million of Infrastructure Notes issued as part of the redemption of Equity Infrastructure Bonds on 6 December 1999, the increase in the level of debt outstanding under the Project Debt Facility as a result of drawings over the period and higher interest rates since that date. Borrowing costs are in line with the amounts forecast in the BCFM.

Depreciation and Amortisation

A charge of $32.4 million was made for the period.

Comparison of Revenue and Expenditures for the Year Ended 30 June 2000 with the Prior Period

A comparison of total revenues and expenses for the year ended 30 June 2000 with the prior year is set out in the table below. In interpreting this table, the following factors should be noted:

- Operating costs for 1999 only relate to two months.
- The decrease in concession fees in 2000 is due to an increase in the revaluation adjustment caused by increases in the interest rate benchmarks used to value the concession notes.
- Interest costs for 1999 include $88.2 million incurred to reset interest rate swaps.

	Period			
	1/7/99 – 31/12/99	1/1/00 – 30/6/00	Year ended 30/6/00	Year ended 30/6/99
Accounting Treatment	Capitalised	Included in Statement of Financial Performance		Capitalised
	$'000	$'000	$'000	$'000
Revenue				
Tolls and Fees	–	30,786	30,786	–
Interest	50,489	73,334	123,823	90,495
Other	554	1,212	1,766	1,327
Expenses				
Operations	44,107	40,073	84,180	6,804
Pre-operations	–	–	–	30,967
Administration	14,672	11,009	25,681	22,668
Concession Fees (net)	9,164	11,665	20,829	32,540
Interest and Finance	87,528	115,384	202,912	241,814
Depreciation	–	32,444	32,444	–
	(104,428)	(105,243)	(209,671)	(242,971)
Other Amounts Capitalised				
Construction	61,270	7,961	69,231	540,565
Cost of e-TAGs	7,331	–	–	28,884
Total Amount Capitalised	(173,029)	(7,961)	(180,990)	(812,420)

Balance Sheet

Total assets increased by $157.2 million to $1,991.1 million. The main reason for this was an increase in Property, Plant and Equipment of $151.3 million.

Total liabilities increased by $227.4 million to $1,757.6 million. The increase was largely due to higher borrowings ($113.5 million), an increase of the liability in respect of Concession Fees ($20.8 million), the raising of a provision of $91.4 million relating to the provisional payments of liquidated damages received under the two Standstill Agreements with the TOJV and the cost of construction payments deferred.

At 30 June 2000, total interest bearing debt outstanding (excluding the Infrastructure Borrowing Facilities which are cash collateralised and Land Transport Notes which are offset against a loan to Macquarie Bank Ltd) was $1,504.3 million.

Net assets reduced by $70.2 million. In December 1999, $55.0 million of additional equity was subscribed by Obayashi and Transroute under the Deferred Equity Subscription Agreement. This agreement occurred in conjunction with the redemption of the Company's Equity Infrastructure Bonds (EIBs). This was more than offset by payments and accruals of distributions on the EIBs amounting to $19.9 million and the operating loss of $105.2 million referred to above. Net assets at 30 June 2000 stood at $233.6 million.

Statement of Cash Flows

The total funding requirement for the year was $249.2 million. This comprised a cash shortfall from operations of $58.0 million, construction payments of $179.7 million and EIB distributions of $11.5 million.

The majority of this requirement was provided from the subscription of additional equity referred to above ($55.0 million), drawdowns from debt facilities ($118.2 million) and payments received from the TOJV under the Standstill Agreements ($69.0 million). The balance was met from cash balances and working capital.

At 30 June 2000, cash balances (excluding prepaid tolls and cash amounts collateralising the Infrastructure Borrowing Facilities) totalled $86.4 million.

Distributions

Distributions of $11.5 million were paid during the year on EIBs issued by the Company. The final distribution on the EIBs of $8.5 million, which was due for payment on 6 December 1999, has been deferred pending project completion and resolution of the dispute with the TOJV.

It will not be possible to pay distributions from operations until Completion of the Project has been achieved and the outcome of the dispute with the TOJV becomes clearer. When these conditions have been met it will be possible to determine the amount and timing of distributions, taking into account the settlement outcome and the outlook for cash generation from operations.

CityLink Operations

The Western Link opened on 15 August 1999 and the Domain Tunnel on 16 April 2000. The openings generated significant public interest and resulted in high opening day traffic volumes.

The subsequent performance of the Western Link and the operational sections of the Southern Link have met pre-opening expectations in terms of traffic flow and travel time savings.

Western Link:

- The Tullamarine section has carried more than 6,000 vehicles per hour in both morning and evening peaks.
- Peak period travel times from Bulla Road to the West Gate Freeway are consistently approximately eight minutes.

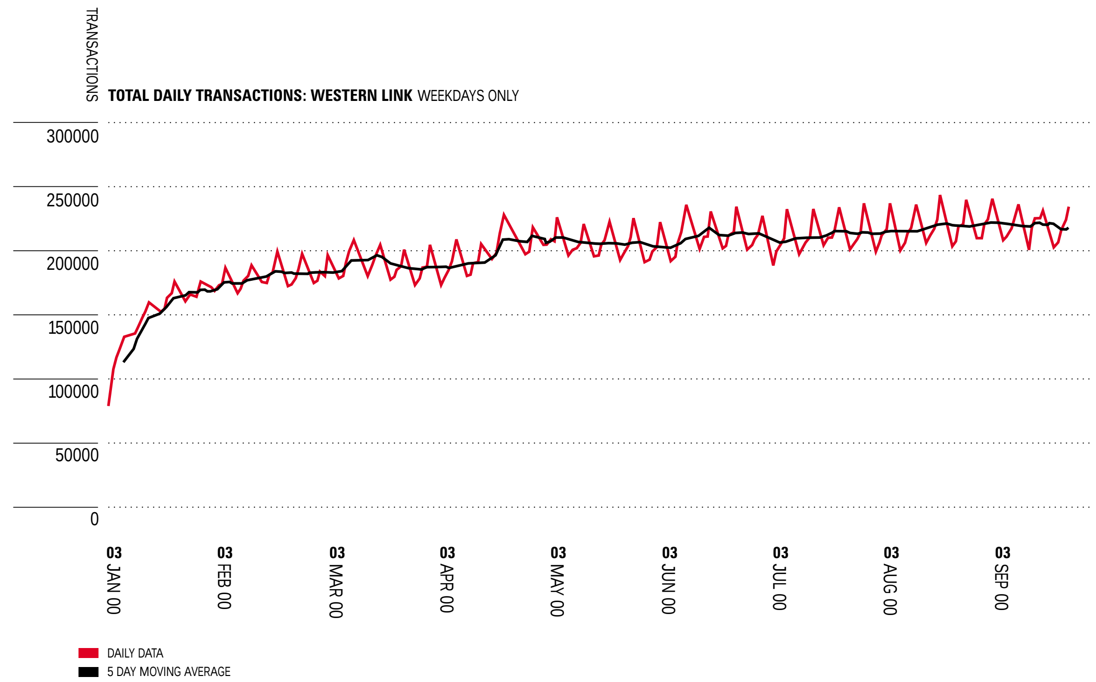
Southern Link:

- The all-day bottleneck at the Punt Road end of the Monash Freeway has been largely eliminated.
- Travel time savings of up to 20 minutes on the trip through Domain Tunnel to the West Gate Freeway are being experienced.
- Congestion on the Swan Street Bridge and Alexandra Avenue westbound has been dramatically reduced.

Traffic using the Tullamarine section of the Western Link has been generally in line with prospectus forecasts, allowing for the expected ramp-up period and the late delivery of Southern Link. In February (the first full month of operations), there was an average of 95,000 weekday transactions recorded on this section. By August this had grown 10.5 per cent, to 105,000 average weekday transactions.

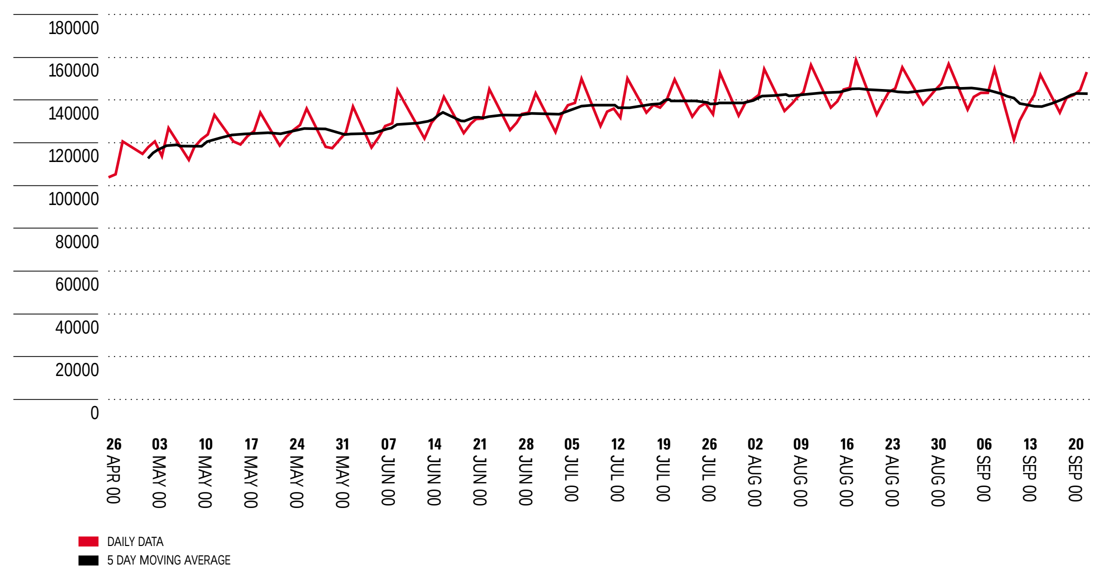
On the Elevated Roadway section and Bolte Bridge, traffic remains below prospectus estimates adjusted for the factors referred to above. It is anticipated these results will improve once the Burnley Tunnel is open, roadworks in the Docklands precinct are complete and integration of the Link into the broader road network is fine-tuned. However, the long-term impact of the new Docklands road network on Western Link traffic remains unclear.

Western Link: weekday total transaction volumes and 5-day moving average



On the Southern Link, a similar picture has emerged. Excellent results have been recorded on the westbound lanes of the upgraded Monash Freeeway, albeit with "half price" tolls being charged due to the delay in Southern Link Completion. Traffic on these sections has increased 10 per cent during the first four months of operation and is very close to prospectus projections. However, the Domain Tunnel, which recorded 33,000 average weekday transactions in August, has been below expectations.

Southern Link: weekday total transaction volumes and 5-day moving average



The profile of vehicles using the operating sections of CityLink continues to change. Over all toll zones the percentage of cars, light commercial and heavy commercial vehicles in June 2000 was 84, 5 and 11 percent respectively, compared to forecasts of 78, 16 and 6 per cent. However, on key sections of the Link, including the Domain Tunnel and Bolte Bridge, heavy commercial vehicles make up over 17 per cent of all transactions. This highlights the benefits of the full functionality of the Link and hence further changes in the mix of vehicles are expected when the Burnley tunnel is operational.

Other important results from the early period of CityLink operations were:

- A declining requirement for enforcement action with the percentage of unregistered vehicles using the Link falling from 2.1 per cent of total transactions in January to less than 0.7 per cent of total transactions by 30 June.
- An extremely positive safety record.
- The good performance of the tunnel ventilation system, with the level of emissions from the Domain Tunnel 80% below EPA licence limits on average, and the air quality index at Southbank showing a measurable improvement since the opening of the tunnel.

Customer Service & Marketing

On 23 December 1999, Translink Operations' involvement in the CityLink customer services function was terminated. This followed the earlier renegotiation of the Operations and Maintenance Agreement and the assumption of direct management control over these functions by Transurban.

Upon termination of its customer service role, TLO was paid $3 million in accordance with the agreement for handover negotiated in May 1999. TLO has retained responsibility for traffic operations, the provision of roadside assistance and road maintenance.

Following the acquisition of full responsibility for customer service, Transurban established a centralised customer service and marketing office, combining staff from a number of different locations in a single functional unit. This is expected to significantly improve the efficiency of customer service operations in the medium term.

Other initiatives undertaken by Transurban during the year to ensure the efficient management of the customer service function include:

- Development of an advanced Customer Relationship Management system designed to provide a "seamless" service to customers through a wider variety of channels and reduce inefficiencies in the customer service function by eliminating double handling of information.
- Introduction of low cost online customer service channels which use Interactive Voice Response (IVR), retail kiosks and the internet. The range of transactions that can be conducted through these channels will be increased significantly over the next twelve months.
- Consolidation of call centre services, with United Customer Management Solutions (UCMS) becoming the sole call centre provider in March 2000. UCMS was initially appointed as an overflow call centre operator in mid 1999.
- Merging of the customer service, marketing and commercial sales functions and the restructuring of the entire customer service business.
- Implementation of a general cost reduction strategy designed to maximise savings from the natural wind-down in activity after the "ramp-up" period.

Construction Progress

The Link is being designed and built by the TOJV pursuant to the D&C Contract for a fixed price of $1,145 million (subject to variations agreed under the terms of the contract). At 30 June 2000, aggregate payments to the TOJV under the D&C Contract were $1,176 million. Further claims of $22 million have been deferred as a result of the standstill agreements between the parties. The aggregate of paid and deferred claims is equivalent to 99.4 per cent of the contract value. The obligation of the TOJV to complete the contract is secured by $126 million of bank securities.

Construction of the Western Link, Monash Freeway, Domain Tunnel and Exhibition Street Extension sections of CityLink is now complete and these sections are open to traffic. However, substantial work remains for the TOJV to complete the D&C Contract.

The first major item of incomplete work is the Burnley Tunnel. In September 1999, the TOJV advised Transurban of emerging problems involving deflection and cracking in the concrete floor slabs of the Burnley Tunnel. Because these problems threatened to compromise the long-term serviceability of the tunnel, a comprehensive engineering review was commissioned to establish their cause and recommend an appropriate solution.

The review found the major factor influencing the behaviour of the floor slabs under the high groundwater pressures which exist in the deep section of the tunnel was the stiffness of the rock at the edges of the slab. Where rock stiffness is low, excessive stresses can occur in the slabs, leading in extreme circumstances to cracking. This effect was most pronounced in the section of the tunnel near the Swan Street shaft where there are significant zones of low stiffness rock.

The solution being implemented by the TOJV has two major components:

- The installation of 2,150 anchors over the full floor area in a section of the tunnel approximately 250 metres long, near its deepest point under Swan Street.
- The installation of a double row of rock anchors at 1-2 metre intervals along the remainder of the 2070 metre tanked section of the tunnel (3,070 anchors in all).

At the time of this report, all anchors had been installed and stressed and grouting to reseal the tunnel was under way. The other critical factor affecting the opening of the Burnley Tunnel is the re-installation of mechanical and electrical systems removed while corrective works have been undertaken. Based on estimates provided by the TOJV, Transurban is advised that the earliest possible date for the opening of the Burnley Tunnel section is November 2000.

The second major outstanding item under the D&C Contract is the final delivery of the CTCS. The currently available version of the CTCS lacks functionality in several areas and has required the use of expensive manual processes as a replacement. At the time of this report, it is expected the CTCS can be delivered within the current timeframe for the completion of the Burnley Tunnel civil works.

Standstill Agreements

Because of the significant delays to completion of the Western and Southern Links and the delivery of the CTCS, Transurban has a large claim for liquidated damages outstanding against the TOJV. The TOJV has lodged a counter claim against Transurban.

In order to avoid potentially lengthy and acrimonious legal action at a critical stage in the project's development, Transurban has negotiated a series of "Standstill Agreements" with the TOJV. The essence of the agreements is that in return for not pursuing its claims for liquidated damages for a specified period, Transurban receives payments from the TOJV to cover the revenue shortfall caused by delays to completion. The agreements have relieved the substantial commercial pressures caused by the delays and enabled all parties to focus on the key task of achieving completion.

The agreements do not constitute either a settlement of the parties' respective claims or a waiver of their rights under the D&C Contract in respect of their claims.

The Standstill Agreements have operated continuously since 3 November 1999. The current agreement, which was entered into on 4 August 2000, runs to 31 October 2000. At the date of this report, the TOJV had met all its payment obligations under the current agreement, bringing to $101 million the total amount received from the TOJV under the agreements.

Under the Agreements, Transfield was also granted permission (subject to certain conditions) to sell 45.0 million of the Transurban stapled securities it held and which are subject to sale restrictions under the Contractors' Performance Undertaking and the Sponsors' Agreement. The proceeds of all such disposals must be placed in an account jointly controlled by Transurban and Transfield. Until Completion of the Southern Link, withdrawals from this account are only permitted for financing Transfield's payments to Transurban under the Standstill Agreements and the TOJV's costs to complete construction of the Link.

Land Transport Notes

Transurban qualified for up to $12.6 million of tax rebates over the period to 30 June 2004 under the Federal Government's Infrastructure Borrowing Taxation Offset Scheme (IBTOS). The rebates are to assist Transurban to finance the $94.5 million combined cost of the Exhibition Street Extension and electronic tags. This amount was initially funded by the Company using an inter-equity loan from the Trust.

The Company has issued $94.5 million of Land Transport Notes (LTNs) to external investors. The investors receive interest on the LTNs and are eligible for a tax rebate on this interest equal to the tax payable calculated using the company tax rate. The current effective LTN interest rate is 6.3 per cent (based on a benchmark rate of 8.5 per cent adjusted for the investors' rebate of 34 per cent).

The Company used the funds to repay the inter-equity funding from the Trust, which in turn loaned the $94.5 million to Macquarie Bank Limited (MBL). The Trust receives a deposit rate of 8.5 per cent from MBL. The difference between the deposit rate of interest and the interest rate on the LTNs represents the benefit to the Project. The Trust's loan to MBL and the Company's LTNs have corresponding option arrangements, enabling the facilities to revert to an inter-entity facility between the Company and the Trust at any time. Therefore, no additional net asset or net liability has been recognised in the Project Accounts as the relevant assets and liabilities are effectively subject to set off.

Tax Ruling on Concession Fee Payments
Transurban has advice from Senior Counsel that the concession fees should be an immediately deductible expenditure. The Project Accounts have been prepared on this basis. Deductions in respect of the concession fees account for $413,654,000 of the Company's carried forward taxable loss of $655,229,000 at 30 June 2000.

An application was made in June 1996 for a private binding income tax ruling from the Australian Taxation Office (ATO) that concession fees are an allowable deduction for income tax purposes in the year to which the fee relates. The Company and the ATO were not able to reach agreement on the treatment to be applied to the concession fees, and in September 1999 Transurban withdrew the ruling request in order to allow resolution of this matter to be pursued through the formal objection process.

The ATO has now issued an assessment in respect of the Company's income tax return for the year ended 30 June 1998 which was amended to treat the concession fees as non-deductible. Transurban lodged an objection to this assessment on 16 August 2000. Transurban is hopeful that the objection process will resolve the matter as soon as possible.

If the ATO's position on deductibility of the concession fees is confirmed, the after tax internal rate of return for an investor subject to the corporate tax rate will be reduced to approximately 85 per cent of the return which would have been achieved if the concession fees were immediately deductible.

Managed Investments Act
On 14 August 1998, the Managed Investments Act 1998 (the Act) came into effect. The Act creates a new regulatory environment and impacts or the workings of the Trust generally. In particular, the Act provides for the transition from the current dual entity structure (being a trustee and a manager) to a single responsible entity.

The Australian Securities and Investments Commission has granted The Transurban City Link Unit Trust an extension of time (from 1 July 2000 to 31 March 2001) to register as a managed investment scheme.

Prior to a registration application being made, a meeting of unitholders will be held in November 2000 to choose the proposed responsible entity and consider amendments to the Trust Deed. It is proposed that the Trustee will become the responsible entity and that the Manager will be appointed under an investment management agreement and continue to undertake many of its existing functions.

Taxation of Trusts
On 21 September 1999, the Government announced its initial response to the recommendations of the Review of Business Taxation. A key recommendation of the Review was that an "entity taxation" regime be implemented. Unless the Trust qualifies for exemption from the proposed regime, the Trustee on behalf of the Trust will be liable for tax on the Trust's net income earned from 1 July 2001 onwards. Imputation credits and rebates may attach to distributions of the Trust's after tax income.

The Government has stated that trusts which qualify as Collective Investment Vehicles (CIVs) will be exempt from the proposed regime. Until the relevant legislation is introduced and enacted it is not clear whether the Trust will qualify as a CIV for these purposes.

Laurence G Cox AO Chairman

Kimberley Edwards Managing Director

26 September 2000

Corporate Governance

The Board acknowledges its critical position as the link between the Company's owners and the executive management, and is committed to the achievement of high standards of corporate governance.

Key features of the Company's processes of corporate governance are set out below.

Responsibility of the Board

The Board of Directors, together with the Company's management, has the responsibility to plan and run the Company for the benefit of shareholders. The Board is accountable to shareholders for the performance of the Company.

The Board has delegated responsibility for operation and administration of the Company to the managing director and executive management. A key function of the Board is to monitor the performance of management in discharging this responsibility. To that end, the Board conducts a formal review each year which examines the performance of the managing director and those executives reporting directly to him.

The Board has retained responsibility for formulation of corporate strategy, remuneration and succession planning for directors and senior management, and integrity of the internal control and management information systems.

Composition of the Board

At the date of this report, the Board comprised five non-executive directors, the managing director (who is the Chief Executive Officer of the Company) and the Finance Director. Information on each director is set out on page 24 of this report.

In appointing new directors, the Board specifies the mix of qualifications, skills and experience it considers desirable and selects individuals who bring the characteristics required to achieve this mix. Once appointed, directors are required to seek the approval of the Board prior to accepting any other directorships.

Directors other than the managing director retire by rotation as required by the constitution of the Company. The managing director has been appointed for a fixed term which expires on 30 June 2001, and is not subject to retirement by rotation.

Performance Review

Each year, the Board conducts a formal review of its effectiveness. In addition, the chairman conducts a formal review each year of the performance of each director.

Committees of the Board

The Board has established four committees.

The Audit Committee assists the Board in fulfilling its responsibilities related to the accounting and reporting practices of the Company and examines matters of financial and regulatory significance. The Committee monitors internal and external audit activities and reviews the performance of, and the fees paid to, external auditors.

Members of the Audit Committee are Peter C Byers (chairman), Laurence G Cox and Jeremy G A Davis.

The Compliance Committee reviews proposals for management of business risk and monitors performance of risk management systems, recommends procedures related to the Code of Conduct for directors and senior management, and recommends and reviews the effectiveness of policies and internal control systems to ensure compliance with legislation, contract documents and community standards.

Members of the Compliance Committee are Susan M Oliver (chairman) and Peter C Byers.

The Nomination and Remuneration Committee recommends criteria for Board membership and appointments, and reviews remuneration and benefit policies and practices for directors and senior management.

Members of the Nomination and Remuneration Committee are Laurence G Cox (chairman), W H John Barr and Jeremy G A Davis.

The Strategy and Marketing Committee assists the Board in fulfilling its responsibilities related to the formulation of corporate strategy and provides advice to the Board on management's proposals in connection with the development and implementation of strategic initiatives.

Members of the Strategy and Marketing Committee are Jeremy G A Davis (chairman), W H John Barr, Laurence G Cox and Susan M Oliver.

Risk Management
The Board has established a comprehensive internal control framework for the purpose of safeguarding the assets of the combined entity and ensuring the integrity of reporting.

The primary business risks faced by the combined entity are:

- Residual construction-related risks not covered by the Design and Construct Contract with the TOJV;
- Other Project risks assumed by the combined entity under the Concession Deed with the State ('Concession Deed risks'); and
- Risks arising from non-compliance with statutory and contractual obligations ('compliance risks').

Residual construction risks are managed through processes of independent review and regular monitoring of the Contractor's activities. These risks diminished in significance over the year as a result of the Project nearing the end of its construction phase and operations becoming more important in the activities of the combined entity.

The most significant Concession Deed risk is the level of usage of the Link (i.e. revenue risk). Traffic revenue is a function of the effectiveness of the Company's marketing to its customers and the performance of the Electronic Toll Collection System (ETCS).

Compliance and Concession Deed risks are managed by a process involving:

- Identification of risks;
- Allocation of the responsibility for monitoring and managing each identified risk to an individual executive; and
- Monthly reporting by executives on the discharge of their risk management responsibilities.

Comprehensive systems of management and financial accounting and internal control have been established. The integrity of these systems is assured through regular reviews by the external auditors.

During the year, high priority continued to be given to training staff of the Company and its contractors in privacy and other obligations under the Melbourne City Link Act and other State and Federal statutes.

Management also conducted further reviews of potential business risks of the Company in the pre-operations and early operations phases of the Project. The management of these risks will continue under the supervision of the Compliance Committee.

On each occasion prior to the public opening of the Western Link and the Southern Link excluding the Burnley Tunnel section and the introduction of tolling on these sections, the Compliance Committee supervised a detailed "due diligence" review. The purpose of these reviews was to confirm compliance by Transurban and its contractors with all their obligations relating to the commencement of operations. Similar reviews will be completed prior to the opening and tolling of the outbound sections of Southern Link.

Independent Professional Advice to Directors
Independent external professional advice is available to directors at the Company's expense. Prior to seeking such advice, directors are required to consult with, and obtain the approval of, the Chairman. The director must consult a suitably qualified adviser in the relevant field and inform the Chairman of the fee payable for the advice. A copy of the advice obtained must be provided to the Board.

Code of Conduct
The Board has approved a Code of Conduct for directors covering:

- Expectations with regard to ethical conduct generally;
- Periods during which directors may deal in the securities of the combined entity and procedures for notification of such dealing;
- Procedures to be adopted in respect of potential conflicts of interest; and
- Procedures for the prior approval of contracts with directors.

Directors' Fees
The maximum total remuneration that may be paid in a year by the Company to non-executive directors is $800,000 under the Articles of Association of the Company. The aggregate fees paid to non-executive directors in the financial year was $499,172.
The annual fees paid in the financial year to 30 June 2000 were:

- Chairman – $127,500
- Non-executive director – $47,500

No additional payments were made for attendance at committee meetings. Superannuation Guarantee Contributions are met out of the above fees.

Non-Executive Directors' Retirement Allowances
The Board has implemented a policy on non-executive directors' retirement allowances that provides for an entitlement to a lump sum payment (not exceeding the maximum allowable under the Corporations Law) if the non-executive director has completed a minimum of three years' service. The lump sum is equivalent to the total emoluments received during the Relevant Period. The Relevant Period is one-third of the director's total period of service or three years (both calculated to the day of retirement), whichever is the lesser.

In the case of the retirement of Brian D Eslick, which occurred during the year, the Board resolved to waive the requirement under this policy for the completion of a minimum of three years' service and to pay a lump sum equivalent to eighteen months' emoluments.

Role of the Trustee
The Trustee's primary duties and obligations include:

- Exercising all due diligence and vigilance in carrying out its functions and duties, and in protecting the rights and interests of the unitholders;
- Performing its functions and exercising its powers under the Trust Deed in the best interests of all unitholders;
- Keeping, or causing to be kept, proper books of account, and causing those accounts to be audited annually by a registered company auditor; and
- Arranging for those accounts and a copy of the auditor's report to be sent to unitholders each year.

The Trustee monitors and supervises the Manager to fulfil these responsibilities. The Trustee ensures the Manager acts in accordance with the terms of the Trust Deed dated 19 October 1995, as amended.

Refer to note 25 of the financial statements for the remuneration of the Trustee.

Independent Professional Advice
In accordance with the Trust Deed, the Trustee has the right to seek independent professional advice at the Trust's expense.

Unitholder Reporting
The Manager and Trustee aim to ensure unitholders are informed of all major developments affecting the Trust's state of affairs. Information is communicated to unitholders through Annual Financial Statements and Half-yearly Financial Statements. In addition, proposed major changes in the Trust that may impact on unitholders' rights are submitted to a vote of unitholders.

Unitholders' Meetings
The Trust Deed and the Corporations Law prescribe the manner and circumstances in which a Unitholders' Meeting may be convened and regulate voting by unitholders.

A change in the appointment of either the Manager or the Trustee is subject to vote by unitholders, as set out in the terms of the Trust Deed dated 19 October 1995, as amended.

Responsibilities of the Manager
The primary duties and obligations of the Manager include exercising its power and performing its functions under the Trust Deed diligently and in the best interest of the unitholders, and ensuring that the Trust is carried on and conducted in a proper and efficient manner.

Under the requirements of the Corporations Law and the Trust Deed, the Manager is responsible for the day-to-day operations of the Trust including:

- Ongoing management, research and selection of investments;
- Preparing all notices and reports to be issued to the unitholders;
- Maintenance of accounts for the Trust, under the delegation of the Trustee; and
- Liaising with the Trustee and ensuring the Trustee is informed.

The Manager fulfils its primary responsibilities through the operation of a suitably qualified Board of Directors and an internal control framework.

Board of Directors
The Board of Directors of the Manager is responsible for the overall corporate governance of the Manager. The Board of Directors meets on a regular basis to discuss relevant business developments and issues.

The Board of Directors currently comprises:

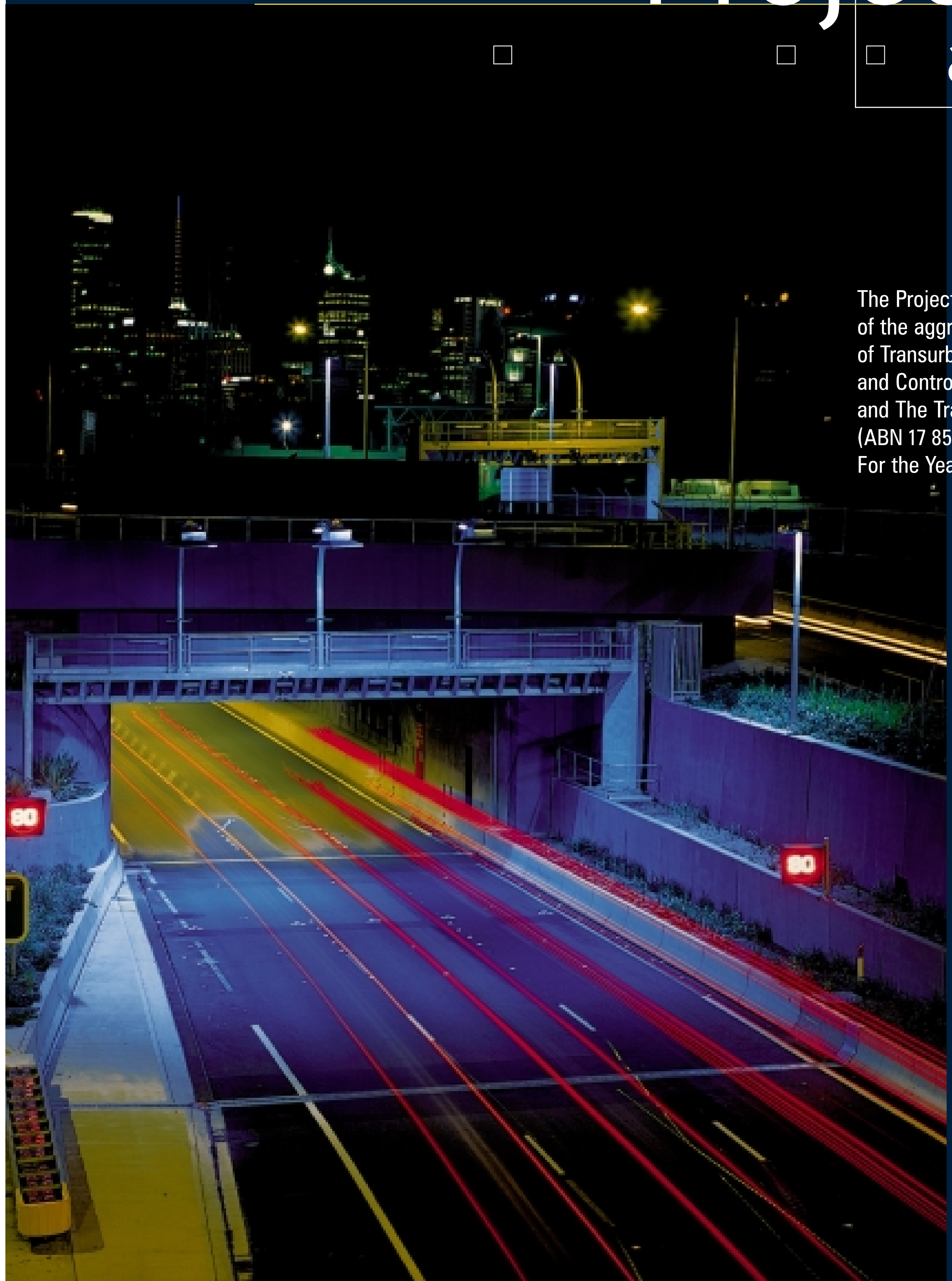
- Michael S Hamson (Chairman).
- W Richard Sheppard.
- Kenneth H Spencer.
- Anthony L Kahn (alternate for W R Sheppard).

Details relating to each director's experience are set out on page 25 of the director's report.

Refer to note 25 of the financial statements for the remuneration of the Manager.

Independent Professional Advice
In accordance with the Trust Deed, the Manager has the right to seek independent professional advice at the Trust's expense. However, prior approval of the Trustee (which is not to be unreasonably withheld) is required.

Project accounts



The Project Accounts consisting of the aggregated Financial Statements of Transurban City Link Limited and Controlled Entity (ABN 65 070 810 678) and The Transurban City Link Unit Trust (ABN 17 859 104 122)
For the Year Ended 30 June 2000

Directors' report

The directors of Transurban City Link Limited and Controlled Entity (the Company) and the directors of City Link Management Limited (the Trust Manager), the Manager of The Transurban City Link Unit Trust (the Trust) present their report on the Project Accounts for the year ended 30 June 2000.

Project Accounts
These Project Accounts have been prepared as an aggregation of the consolidated financial statements of the Company and the financial statements of the Trust as if both entities operate together. They are therefore treated as a combined entity (the combined entity), notwithstanding that neither entity controls the other.

The financial statements have been aggregated in recognition of the fact that the securities issued by the Company and the Trust are stapled into parcels. A Stapled Security comprises one share in the Company with a nominal price of $0.01 and one unit in the Trust with a nominal price of $0.99. None of the components can be traded separately. Prior to 6 December 1999, a Stapled Security consisted of one share in the Company with a nominal price of $0.01, one unit in the Trust with a nominal price of $0.99 and 499 Equity Infrastructure Bonds (EIB's) issued by the Company with a nominal price of $1.00. On 6 December 1999, the 499 EIBs in each Stapled Security parcel were redeemed and the proceeds automatically re-invested in 499 shares in the Company and 499 units in the Trust.

Directors
The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

Laurence G Cox	Jeremy G A Davis
Kimberley Edwards	Susan M Oliver
W H John Barr	Geoffrey R Phillips
Peter C Byers	

Geoffrey P Cook was a director from his appointment until his retirement on 23 September 1999 and Brian D Eslick was a director from his appointment until his retirement on 24 April 2000.

The following persons held office as directors of the Trust Manager during the whole of the financial year and up to the date of this report:

Michael S Hamson
W Richard Sheppard
Kenneth H Spencer
Anthony L Kahn (alternate for Richard Sheppard)

Principal Activities
The principal continuing activities of the combined entity during the year were the design, construction and operation of the Melbourne City Link (CityLink). Commencement of operations occurred on 3 January 2000.

Results
The result of operations for the financial year ended 30 June 2000 was an operating loss of $105 million (1999: nil). Prior to commencement of operations on 3 January 2000, all costs and revenues were capitalised.

Distributions
Details of distributions for the year ended 30 June 2000 in respect of the Stapled Securities issued by the combined entity are set out below.

Distribution of interest on Equity Infrastructure Bonds was at the rate of 10.02% per annum on the issue price of the Bond.

Quarter	Date paid/payable	Value per Stapled Security	Aggregate Amount $'000
September 1999	30 September 1999	$12.60	11,468
			11,468

The final interest payment of $9.32 per pre redemption Stapled Security (aggregate value $8,477,000) with a record date of 3 December 1999 is still outstanding. The delay in payment will continue until the Southern Link is completed and the liquidated damages claim against the Transfield Obayashi Joint Venture (TOJV) is clarified.

Review of Operations

a) Traffic

The Western Link opened on 15 August 1999 and tolling commenced on 3 January 2000. The Western Link operated without tolling between 15 August 1999 and 3 January 2000 while commissioning of the Central Toll Computer System (CTCS) was completed under 'live' conditions.

To mitigate the effects of the delays to completion of the Burnley Tunnel (see below), Transurban negotiated the agreement of the State to allow the westbound sections of the Southern Link to be opened and tolled when they were complete. The westbound sections of the Southern Link, including the Domain Tunnel, were opened on 16 April 2000 and tolling commenced on 26 April 2000.

Operation of the Electronic Toll Collection System has been stable since the commencement of tolling.

Toll transactions have grown steadily since the commencement of tolling. At 31 July 2000, the 5 day moving averages of weekday toll transactions were:

— Western Link: 212,382 transactions per day
— Southern Link: 138,800 transactions per day

The prospectus projections have therefore been modified to take into account the facts that all sections of the Link are not yet open and usage patterns have not yet been stabilised. The actual transaction volumes set out above, represent 87 per cent and 96 per cent respectively of these modified projections.

The results on individual toll zones vary, with the Tullamarine Freeway and Monash Freeway zones exceeding expectations while the Elevated Road and Bolte Bridge zones on Western Link and the Domain Tunnel zone on the Southern Link are achieving about 75 per cent of expectations. Higher use of these sections is expected as motorists understand how to make use of these sections to access the Central Activities District. A marketing campaign aimed at improving motorists' understanding of the access potential of these sections has been implemented. During the period of delay in completion of the Southern Link, shortfalls in toll revenue are incorporated into the liquidated damages claims by Transurban on the TOJV.

b) Customer Service

Transurban has had direct control of all aspects of the customer service functions since May 1999 and in that time has largely corrected the deficiencies which existed in the quality of customer service. At 30 June 2000, registered customers totalled 371,582, of which 10,051 are in the commercial sector. These customers have been provided with 531,702 e-TAGs.

The costs of establishing and maintaining the customer service organisation for the year totalled $63.5 million, which is considerably greater than expected.

The primary causes of the higher levels of customer service cost were:

— The 'creeping delays' to the introduction of tolling on the Western Link which occurred over the period from May to December 1999. These delays resulted in high levels of customer service manning being maintained throughout this period;
— inefficient workflow processes in the customer service organisation taken over from Translink Operations Pty Ltd (TLO), which caused unnecessarily high levels of manning in the 'back office' activities;
— an underestimation of the peak levels of customer service demand caused by the opening and tolling of sections; and
— a lack of functionality of the CTCS which necessitated the use of expensive manual processes as a replacement.

These additional costs form a part of Transurban's claim against the TOJV under the Liquidated Damages provisions of the Design and Construct (D&C) Contract as a result of delays to Completion of the Western Link and Southern Link.

An extensive program of cost reduction has been implemented in the customer service area, and by July, monthly costs had been reduced from a peak of $8.4 million in February to $4.3 million, a reduction of 49 per cent. The objective is to achieve a monthly cost of $1.7 million ($0.7 million net of cost recoveries) by early 2001. This objective is consistent with the costs allowed for this function in the Project's original financial plan.

Directors' report

c) Construction

— Progress

At 30 June 2000, aggregate payments to the TOJV under the D&C Contract were $1,176 million. Further claims of $22 million have been deferred as a result of the Standstill Agreements described below. The aggregate of paid and deferred claims is equivalent to 99.4 per cent of the contract value. The performance of the TOJV's obligation to complete the contract is secured by $126 million of bank securities.

— Schedule

Completion of the Western Link was certified on 17 December 1999, 225 days after the contractual Date for Completion of 6 May 1999. The contractual Date for Completion of Southern Link was 19 January 2000. At 30 June 2000, Completion of Southern Link had not been certified. The delays to the Completion of Southern Link have been caused by the need to undertake extensive remediation of the floor slabs of the Burnley Tunnel following the occurrence of several failures during testing of the floor in September 1999. This remediation work has now largely been completed, and based on a work program provided by the TOJV, the OIR's current assessment of an earliest finish date for completion is late November 2000.

— Liquidated Damages

At 30 June 2000 Transurban had submitted claims for $172 million in respect of these delays under the liquidated damages provisions of the D&C Contract. In response, the TOJV submitted a claim for an Extension of Time for the full period of the delay. This claim has been rejected by the Independent Reviewer because it was not submitted within the time specified in the D&C Contract. These claims and counter claims have put the parties under significant commercial pressures, including the risk of legal proceedings arising as a result of the issue of a writ by the TOJV in the Supreme Court of Victoria on 24 January 2000. The writ alleges, inter alia, that the liquidated damages provisions of the D&C Contract are unenforceable. To ensure that these pressures did not distract the parties from the key task of completing the project, the parties entered into a series of Standstill Agreements. The essence of the agreements is that in return for not pursuing its claims for liquidated damages while the agreement is in force, Transurban receives payments from the TOJV to cover its operating cash shortfall.

These payments represent provisional payments in respect of any liability which the TOJV may have for liquidated damages. The agreements do not constitute either a settlement of the parties' respective claims or a waiver of their rights under the D&C Contract in respect of the claims.

The agreements have operated continuously over the period from 3 November 1999. The current agreement runs until 31 October 2000. Cash payments received under the agreements amount to $69 million to 30 June 2000, with a further $9.6 million due to be paid on 14 September 2000. Construction claims of $22 million have also been deferred as a result of the agreements.

Under the agreements, Transurban has also given its consent to the disposal prior to project completion of 45.0 million Transurban Stapled Securities held by Transfield and subject to sale restrictions under the Contractors' Performance Undertaking and the Sponsors' Agreement. Of this disposal, not more than 28.75 million Stapled Securities may be disposed of by outright sale (as opposed to by way of pledge). All of the proceeds from disposal of Stapled Securities must be applied by Transfield to its share of the TOJV payments to Transurban under the agreements or of the costs of completing the Project.

d) Income Tax

Transurban has advice from Senior Counsel that the concession fees are immediately deductible expenditure. The Project Accounts have been prepared on this basis (see note 4). Deductions in respect of concession fees account for $413,654,000 of the Company's carried-forward taxable loss of $655,229,000 at 30 June 2000.

An application was made in June 1996 for a private binding income tax ruling from the Australian Taxation Office (ATO) that the concession fee is an allowable deduction for income tax purposes in the year to which the fee relates. The Company and the ATO were not able to reach agreement on the treatment to be applied to the concession fees, and in September 1999 Transurban withdrew the ruling request in order to allow resolution of this matter to be pursued through the formal objection process.

The ATO has now issued an assessment in respect of the Company's income tax return for the year ended 30 June 1998 which was amended to treat the concession fees as non-deductible. Transurban lodged an objection to this assessment on 16 August 2000. Both the ATO and Transurban are hopeful that the tax objection process will expedite a settlement of this matter.

If the ATO's position on deductibility of the Concession Notes is confirmed, the after tax internal rate of return for an investor subject to the corporate tax rate will be reduced to approximately 85 per cent of the return which would have been achieved if the concession fees were immediately deductible.

Significant Changes in the State of Affairs

a) Commencement of operations

As a consequence of the partial completion of the Project and the commencement of tolling, the primary focus of Transurban has shifted from D&C Contract management, pre-operations customer management and operations preparation to the operation of CityLink. The operation of CityLink includes customer management services, transaction processing, revenue collection and cost recovery. These functions are undertaken directly by Transurban and not by an operator under contract as originally envisaged. However, roadside operation and maintenance are fully outsourced and undertaken by the operator, TLO, for a fixed fee.

b) Redemption of Equity Infrastructure Bonds

The capital structure of the Project changed with the redemption of the EIBs on 6 December 1999. The price at which redemption occurred and the subsequent resubscription was $3.482 per Stapled Security parcel. As a result of the redemption, each parcel of 499 EIBs in a Stapled Security was replaced with 499 shares in the Company and 499 units in the Trust. Following the redemption, a Stapled Security parcel consists of one share and one unit. The redemption of EIBs was funded by the Infrastructure Notes facility and inter-entity borrowings.

c) Land Transport Notes

Transurban qualified for up to $12.6 million of tax rebates over the period to 30 June 2004, under the Federal Government's Infrastructure Borrowing Taxation Offset Scheme (IBTOS). The rebates are to assist Transurban to finance the $94.5 million (initially funded by the Company using an inter-entity loan from the Trust) combined cost of the Exhibition Street Extension (ESE) and electronic tags.
The Company issued $94.5 million of Land Transport Notes (LTNs) to external investors. The investors receive interest on the LTNs and are eligible for a tax rebate on this interest equal to the tax payable calculated using the company tax rate. The current effective LTN interest rate is 6.3 per cent (based on 8.5 per cent adjusted for the investors' rebate of 34 per cent). The Company used the funds to repay the inter-entity funding from the Trust, who in turn loaned the $94.5 million to Macquarie Bank Limited (MBL). The Trust receives a deposit rate of 8.5 per cent from MBL. The difference between the deposit rate of interest and the interest rate on LTNs represents the benefit to the Project. The Trust's loan to MBL and the Company's LTNs have corresponding option arrangements, enabling the facilities to revert to an inter-entity facility between the Company and the Trust at any time. Therefore, no additional net asset or net liability has been recognised in the Project Accounts as the relevant assets and liabilities are effectively subject to set off.

Matters Subsequent to the End of the Financial Year

At the date of this report, the directors are not aware of any circumstances that have arisen since 30 June 2000 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the combined entity constituted by the Company and the Trust in financial years subsequent to 30 June 2000.

Likely Developments

The major likely developments in operations in the next six months are the impacts on cash flow arising from Southern Link completion and the resolution of D&C Contract disputes with TOJV.

a) Liquidated Damages

The cumulative value of liquidated damages at the completion of the current Standstill Agreement will be approximately $230 million, at which time provisional payments (including deferred construction payments) by the TOJV will be approximately $106 million. These figures are before legal costs or any settlement costs. The amount of liquidated damages ultimately received by Transurban will also depend on the outcome of the TOJV's claims in respect of extensions of time and enforceability of the liquidated damages provisions of the D&C Contract.

b) Universal Settlement

Transurban and TOJV are actively pursuing a resolution of outstanding claims by way of a 'Universal Settlement'. It would be prejudicial to Transurban's commercial position to predict the outcome of these negotiations.

Directors' report

c) Cashflow
Until the completion of the Southern Link, the net cash flow generated by Transurban's operations will be negative. This cash deficit is presently being funded by payments by the TOJV under the Standstill Agreements. If Southern Link completion is delayed beyond November 2000, Transurban will seek additional funds from the TOJV. In the event that the TOJV does not provide such funds, the necessary funds will be drawn from the TOJV securities held by the Security Trustee. Upon commencement of full tolling on all sections, the net cash flow generated by Transurban's operations will be positive.

Until Project Completion is achieved, no distributions can be made. The timing and amount of initial distributions will be determined by the result of the Universal Settlement, the timing of Southern Link completion and traffic volumes.

d) Ralph Committee – Entity Taxation
On 21 September 1999, the Government's initial response to the Ralph Committee's recommendations for changes in tax legislation was announced. Unless the Trust qualifies for exemption from the proposed regime, the Trustee on behalf of the Trust will be liable for tax on the Trust's net income earned from 1 July 2001 onwards. Imputation credits and rebates may attach to distributions of the Trust's after tax income. The Government has stated that Collective Investment Vehicles (CIVs) will be exempt from the proposed regime. Until the relevant legislation is introduced and enacted it is not clear whether the Trust will qualify as a CIV for these purposes.

e) Managed Investments Act
On 14 August 1998, the Managed Investments Act 1998 (the Act) came into effect. The Act creates a new regulatory environment and impacts the workings of the Trust generally. In particular, the Act provides for the transition from the current dual entity structure (being a trustee and a manager) to a single responsible entity.

The Australian Securities and Investments Commission has granted The Transurban City Link Unit Trust an extension of time (from 1 July 2000 to 31 March 2001) to register as a managed investment scheme.

Prior to a registration application being made, a meeting of unitholders will be held in November 2000 to choose the proposed responsible entity and consider amendments to the Trust Deed. It is proposed that the Trustee will become the responsible entity and that the Manager will be appointed under an investment management agreement to continue to undertake many of its existing functions.

f) CPI Bondholders
Under the CPI Bond facility, failure to achieve project completion by 20 November 2000 entitles the CPI Bondholders (Bondholders) to redeem the CPI Bonds. The value of the CPI Bonds based on the last sale price is well in excess of the redemption price available to Bondholders. Therefore, in the absence of any material adverse change in the project's risk profile, it is unlikely that Bondholders will seek to redeem the Bonds. If Bondholders do elect to redeem the CPI Bonds, the Tranche A Financiers would be obliged to pay the redemption amount. Any such payments made by the Tranche A Financiers are reimbursable by Transurban on demand.

Transurban is currently working with the Bondholders to ensure that their decisions in respect of redemption are fully informed. The factors likely to influence the redemption decisions are being regularly monitored and facilities to provide alternative finance in the event of redemption are being developed.

Expected Results of Operations
Information on the expected results of operations has not been included in this report because the directors believe such information would be likely to result in unreasonable prejudice to the combined entity.

Environmental Regulation
The TOJV has responsibility under the D&C Contract to ensure compliance with environmental regulations during construction.

In the operations phase, TLO, in its capacity as Operator, must ensure it complies with EPA regulations. To comply with this obligation, TLO monitors the emissions of carbon monoxide, nitrogen oxides and particulate matter in the Domain Tunnel Ventilation Stack located in Grant Street, South Melbourne. The emissions recorded are well below the EPA licence limits.

Information on Directors
Directors of the Company

Laurence G Cox AO, B Com, FCPA, FSIA
Mr Laurie Cox has had many years' experience in Australia's financial markets. He is the immediate past Chairman of the Australian Stock Exchange Limited (1989 – 1994). Prior to joining Transurban, Mr Cox was Executive Chairman of the Potter Warburg Group of Companies and a Director of S G Warburg Securities of London. He is a director of Macquarie Bank Limited and Smorgon Steel Group Ltd and Chairman of Fortis Australia Ltd, Argosy Asset Management Australia Ltd and The Murdoch Childrens Research Institute. Age 61.

Kimberley Edwards BE, MAdmin (Bus), FIE (Aust)
Mr Kim Edwards has extensive experience managing major commercial and infrastructure projects in Australia, UK and the Middle East. Prior to joining Transurban, he was General Manager – Projects for Transfield, and was responsible for assembling the successful bid for the Melbourne City Link Project. He was Project Director for Jennings Group's $650 million Southgate development in Melbourne and has worked overseas on large port infrastructure projects. Age 49.

W H John Barr AM
Mr John Barr has considerable experience in the Australian minerals and metals industry. He was Managing Director of the Australian subsidiary of Metallgesellschaft AG from 1974 until his retirement in June 1994. He is Chairman of Utilities of Australia Pty Ltd and a director of The Swish Group Ltd, Iluka Resources Ltd and Oxiana Resources NL. Age 63.

Peter C Byers B Com (Hons)
Mr Peter Byers is a founding director and current Chairman of the Investment Committee of the Superannuation Scheme for Australian Universities. He was formerly business manager and deputy principal of the University of Tasmania. He is a director of Adelaide Airport Ltd and Hills Motorway Ltd, a director of the manager of Hills Motorway Trust and a director of the Blair Athol Group. He is an alternate director for Hancock Victorian Plantations Holdings Ltd and Horizon Energy Investment Ltd. Age 59.

Jeremy G A Davis BEc, MBA, MA, FAICD
Professor Jeremy Davis holds the AMP Chair of Management in the Australian Graduate School of Management at the University of NSW. His academic interests are in the fields of business policy and corporate performance. He is chairman of Capral Aluminium Ltd and a Fellow of the Australian Institute of Company Directors. Professor Davis is a former vice-president and director of the Boston Consulting Group, and a former director of the Australian Stock Exchange, AIDC Ltd and Nucleus Ltd. Age 57.

Susan M Oliver B Bldg (QS)
Ms Susan Oliver is chair of Screen Sound Australia – The National Screen and Sound Archive and a director of The Swish Group Ltd, Medical Benefits Fund and Programmed Maintenance Services Ltd. Ms Oliver was formerly a Senior Manager of Andersen Consulting. She has held board positions with the Victorian Institute of Marine Sciences, Interact Events Limited and FHA Design Pty Ltd and was Managing Director of the Australian Commission for the Future Ltd. Age 49.

Geoffrey R Phillips BE (Chem), MBA
Mr Geoffrey Phillips was appointed Finance Director on 28 August 1998 and has been with Transurban for 4 years. Prior to joining Transurban, he worked for the Potter Warburg Group for 6 years as director in both the Corporate Finance and Fixed Interest Divisions. He is currently a director of Yarra Valley Water Limited. Age 56.

Directors of the Trust Manager

Michael S Hamson LLB, CA
Mr Michael Hamson is a solicitor and a Member of the Institute of Chartered Accountants of Scotland. He was a founding partner of McIntosh Griffin Hamson & Co. and former Chairman and Chief Executive of McIntosh Hamson Hoare Govett Ltd. He is currently Chairman of Queensland Metals Corporation Limited and National Golf Holdings Ltd, Deputy Chairman of Normandy Mining Limited and a director of Genesis Management Australia and Tourism Asset Holdings Ltd. Age 60.

W Richard Sheppard B Ec (Hons)
Mr Richard Sheppard is Deputy Managing Director of Macquarie Bank Limited and is head of the bank's Corporate Affairs group. He is Chairman of the manager of Hills Motorway Trust and Horizon Energy Investment Group and Deputy Chairman of the International Banks and Securities Association. He is a director of Medallist Golf Developments Pty Ltd and Macquarie Leisure Management Ltd. Age 51.

Kenneth H Spencer FCA
Mr Ken Spencer was formerly Melbourne Managing Partner of KPMG and was Chairman of the Australian Accounting Standards Board. He is currently a director of GUD Holdings Ltd, Pacifica Group Ltd, British American Tobacco Australia Ltd, IAMA Ltd and cdk Tectonics Ltd. Age 62.

Anthony L Kahn B Comm (WITS), B Accounting (WITS), ACA, ASA
Mr Anthony Kahn is an executive director of Macquarie Bank Limited and head of the bank's Infrastructure and Specialised Funds Division. Mr Kahn is Managing Director of Macquarie Infrastructure Investment Management Limited and a director of the manager of the Hills Motorway Trust, M5 Holdings Pty Ltd and South African Infrastructure Funds Managers (Pty) Ltd. Alternate director for W R Sheppard. Age 41

Directors' report

Meetings of Directors

Attendance of directors of the Company and the Trust Manager at meetings of the Board and of committees of the Board during the year ended 30 June 2000, are shown in the tables below.

Name	Directors' Meeting		Audit Committee		Compliance Committee		Nomination & Remuneration Committee		Strategy & Marketing Committee	
Company	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
L G Cox	18	18	2	2			3	3	2	1
K Edwards	18	18								
W H J Barr	18	14					3	3	2	2
P C Byers	18	18	2	2	3	3				
G P Cook[1]	2	1			0	0	0	0		
J G A Davis	18	17	2	2			3	3	2	2
B D Eslick[2]	11	9	2	2	2	1				
S M Oliver	18	16			3	3			2	2
G R Phillips	18	18								

1 G P Cook retired on 23 September 1999
2 B D Eslick resigned on 24 April 2000

Name	Directors' Meeting	
Manager	Eligible to attend	Attended
M S Hamson	8	8
W R Sheppard	8	8
K H Spencer	8	7
A L Kahn (alternate for W R Sheppard)	8	6

Directors' Interests

The following are particulars of Stapled Securities as at the date of this Directors' Report in which directors of the Company and of the Trust Manager have disclosed a relevant interest.

Name	Number of Stapled Securities
Company	
L G Cox	775,000
K Edwards	50,000
W H J Barr	15,000
P C Byers	50,000
J G A Davis	5,000
S M Oliver	35,000
Manager	
M S Hamson	10,000
W R Sheppard	150,000
K H Spencer	10,000

Directors' and Executives' Emoluments

The Nomination and Remuneration Committee has 4 members who recommend and review remuneration and benefit packages for directors and senior executives.

Directors are paid an annual fee, the total of which does not exceed the amount specified in the Articles of Association of the Company. No additional payments are made for attendance at committee meetings. All directors receive a superannuation guarantee contribution which is 7% of their fees. They are permitted to make additional superannuation contributions through sacrifice of a corresponding amount of their annual fee.

On retirement, non-executive directors with more than 3 years service are entitled to receive a lump sum payment equivalent to the total emoluments received during a third of the director's total period of service or 3 years, whichever is the lesser.

In the case of the retirement of Brian D Eslick which occurred during the year, the Board resolved to waive the requirement under this policy for the completion of a minimum of three years' service and to pay a lump sum equivalent to eighteen months' emoluments.

The following table shows remuneration details for each non-executive director of the Company:

Name	Director's Fee $	Superannuation $	Retirement Benefit $	Total $
L G Cox	119,150	8,350		127,500
W H J Barr	44,388	3,112		47,500
P C Byers	44,388	3,112		47,500
G P Cook	11,097	777	58,965	70,839
J G A Davis	44,388	3,112		47,500
B D Eslick	39,583	0	71,250	110,833
S M Oliver	44,388	3,112		47,500

The following table shows remuneration details for the executive directors of the Company:

Name	Base Salary $	Bonus $	Superannuation $	Total $
K Edwards – Managing Director	469,650	120,000	30,350	620,000
G R Phillips – Finance Director	266,355	60,000	18,645	345,000

In addition to the above amounts, the following table sets out amounts which have been accrued in respect of payments to which the executive directors may become entitled after the completion of construction.

Name and Position	Total $
K Edwards – Managing Director	220,000
G R Phillips – Finance Director	137,500

Directors' report

The following table shows remuneration details for each director of the Manager:

Name	Director's Fee $	Superannuation $	Total $
M S Hamson	$23,364	$1,636	$25,000
W R Sheppard	–	–	–
K H Spencer	$15,000	$10,000	$25,000
A L Kahn	–	–	–

The remuneration packages of executives include a base salary, superannuation and annual performance related incentives. The package is reviewed annually by the Nomination and Remuneration Committee. The base salary reflects the size of the job and level of skill and experience of the individual. The annual incentive is based on performance goals set at the start of the year.

The following table shows remuneration details for the top five executive officers of the Company:

Name and Position	Base Salary $	Bonus $	Superannuation $	Total $
T Herring – General Manager, Sales & Marketing	235,972	30,000	27,820	293,792
K Daley – Executive General Manager, Operations	210,280	50,000	14,720	275,000
P O'Shea – General Counsel	179,086	40,000	10,913	229,999
K Reynolds – General Manager, Construction	160,318	40,000	9,682	210,000
J Coutts – General Manager, Corporate Relations	173,566	–	28,741	202,307

In addition to the above amounts, the following table sets out amounts which have been accrued in respect of payments to which the executive officers may become entitled after the completion of construction.

Name and Position	Total $
K Daley – Executive General Manager, Operations	99,000
P O'Shea – General Counsel	95,150
K Reynolds – General Manager, Construction	78,925

Indemnification and Insurance
Article 12.1 of the Articles of Association of the Company provides that to the extent permitted by law, each person who is or has been an officer of the Company shall be indemnified against liability incurred by the person in his capacity as an officer of the Company unless the liability arises out of conduct on the part of the officer which involves a lack of good faith. The Company also indemnifies each person who is or has been an officer of the Company against liability for costs or expenses incurred by the person in his or her capacity as an officer of the Company in defending civil or criminal proceedings in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in which the Court grants relief to the person under the Corporations Law.

Pursuant to this indemnification, the Company has paid a premium for an insurance policy for the benefit of directors, secretaries and executive officers of the Company and related bodies corporate of the Company. In accordance with common practice, the insurance policy prohibits disclosure of the nature of the liability covered and the amount of the premium.

The directors of the Trust Manager do not have an indemnity from the Trust. However, the directors are indemnified under an insurance policy with the Macquarie Bank group.

Rounding off
The combined entity is of a kind referred to in Class Order 98/0100, relating to the 'rounding off' of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements are rounded off to the nearest thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of the directors.

Transurban City Link Limited

Laurence G Cox AO
Chairman

Kimberley Edwards
Managing Director

Melbourne
30 August 2000

City Link Management Limited

Michael S Hamson
Chairman

Kenneth H Spencer
Director

Melbourne
30 August 2000

Statement of financial performance FOR THE YEAR ENDED 30 JUNE 2000

	Notes	2000 a $'000	1999 $'000
Revenue from ordinary activities	2	**105,332**	–
Expenses from ordinary activities:			
Operational costs	3	**(40,073)**	–
Administration		**(11,009)**	–
Concession Fees		**(47,800)**	–
Valuation adjustments on Concession Notes		**36,135**	–
Depreciation and amortisation expenses	3	**(32,444)**	–
Borrowing costs expense	3	**(115,384)**	–
Loss from ordinary activities before income tax		**(105,243)**	–
Income tax on operating loss	4	**–**	–
Loss from ordinary activities after income tax		**(105,243)**	–
Earnings per Stapled Security	30		

a Operations commenced on 3 January 2000. Amounts in the statement of financial performance for 2000, relate to the period 3 January 2000 to 30 June 2000.

The above statement of financial performance should be read in conjunction with the accompanying notes

Statement of financial position AS AT 30 JUNE 2000

	Notes	2000 $'000	1999 $'000
Current Assets			
Cash assets	5	**102,850**	99,801
Receivables	6	**13,171**	5,233
Other	7	**1,343**	2,952
Total Current Assets		**117,364**	107,986
Non-Current Assets			
Property, plant and equipment	8	**1,873,804**	1,722,520
Other	9	**–**	3,460
Total Non-Current Assets		**1,873,804**	1,725,980
TOTAL ASSETS		**1,991,168**	1,833,966
Current Liabilities			
Payables	10	**29,478**	30,379
Interest bearing liabilities	11	**8,195**	127
Non-interest bearing liabilities	12	**107,844**	9,754
Provisions	13	**580**	13,142
Total Current Liabilities		**146,097**	53,402
Non-Current Liabilities			
Interest bearing liabilities	14	**1,496,075**	1,382,579
Non-interest bearing liabilities	15	**114,253**	93,423
Provisions	16	**1,142**	771
Total Non-Current Liabilities		**1,611,470**	1,476,773
TOTAL LIABILITIES		**1,757,567**	1,530,175
NET ASSETS		**233,601**	303,791
Security Holders' Equity			
Contributed Equity	17	**338,846**	303,791
Retained losses	18	**(105,245)**	–
TOTAL SECURITY HOLDERS' EQUITY		**233,601**	303,791

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of cash flows FOR THE YEAR ENDED 30 JUNE 2000

	Notes	2000 $'000	1999 $'000
Cash flows from operating activities			
Receipts from customers		**26,947**	–
Payments to suppliers		**(56,435)**	–
Interest received		**73,706**	–
Other revenue		**1,212**	–
Borrowing costs		**(103,501)**	–
Net cash outflow from operating activities	29	**(58,071)**	–
Cash flows from investing activities			
Payments for property, plant and equipment		**(179,688)**	(766,452)
Net cash outflow from investing activities		**(179,688)**	(766,452)
Cash flows from financing activities			
Proceeds from Infrastructure Notes		**454,000**	–
Proceeds from borrowings		**224,113**	912,675
Proceeds from provisional payments – liquidated damages		**69,000**	–
Repayment of borrowings		**(95,837)**	(1,590)
Redemption of Stapled Security Parcels		**(1,581,141)**	–
Proceeds from issue of new Stapled Security Parcels		**1,581,141**	–
Proceeds from issue of new Stapled Security Parcels under the Deferred Equity Subscription Agreement		**55,000**	–
Distributions on Stapled Securities		**(11,468)**	(45,500)
Net cash inflow from financing activities		**694,808**	865,585
Net increase/(decrease) in cash at bank and cash collateral		**457,049**	99,133
Cash at bank and cash collateral at the beginning of the financial year		**894,801**	795,668
Cash at bank and cash collateral at the end of the financial year	5	**1,351,850**	894,801
Less cash collateral	14	**1,249,000**	795,000
Cash at bank at the end of the financial year	5	**102,850**	99,801
Financing arrangements	14		

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

1 Summary of significant accounting policies

a) Basis of Accounting

The financial statements are a general purpose financial report prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Law.

The Project Accounts consist of the aggregated financial statements of the combined entity comprising Transurban City Link Limited and Controlled Entity (the Company) and The Transurban City Link Unit Trust (the Trust), notwithstanding that neither entity controls the other. The aggregated accounts incorporate an elimination of inter-entity transactions and balances and other adjustments necessary to present the financial statements on a combined basis. The accounting policies adopted in preparing the financial statements have been consistently applied by the individual entities comprising the Project Accounts except as otherwise indicated.

The financial statements have been aggregated in recognition of the fact that the securities issued by the Company and the Trust are stapled into parcels. A Stapled Security comprises one share in the Company with a nominal price of $0.01 and one unit in the Trust with a nominal price of $0.99. None of the components can be traded separately. Prior to 6 December 1999, a Stapled Security consisted of one share in the Company with a nominal price of $0.01, one unit in the Trust with a nominal price of $0.99 and 499 Equity Infrastructure Bonds (EIB's) issued by the Company with a nominal price of $1.00. On 6 December 1999, the 499 EIBs in each Stapled Security parcel were redeemed and the proceeds automatically re-invested in 499 shares in the Company and 499 units in the Trust.

The Project Accounts are to be read in conjunction with the separate financial statements of the Company and the Trust.

The directors have elected to apply revised Accounting Standard AASB 1018 Statement of Financial Performance, revised AASB 1034 Financial Report Presentation and Disclosures and AASB 1040 Statement of Financial Position before their mandatory application dates in accordance with subsection 334(5) of the Corporations Law.

b) Historical Cost Convention

The Project Accounts are prepared on the basis of the historical cost convention and, except where stated, do not take into account current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The fair value of cash consideration with deferred settlement terms is determined by discounting any amounts payable in the future to their present value as at the date of acquisition. Present values are calculated using rates applicable to similar borrowing arrangements of the combined entity.

The combined entity has not adopted a policy of revaluing its non-current assets on a regular basis. Non-current assets are revalued from time to time as considered appropriate by the directors and are not stated at amounts in excess of their recoverable amounts.

c) Revenue recognition

Toll charges and related fees are recognised when the charge is incurred.

d) Recoverable Amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present value using a market-determined, risk-adjusted discount rate of 7.8 per cent.

Where net cash inflows are derived from a group of assets working together, the recoverable amount is applied to the relevant group of assets. Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount.

e) Leasehold Improvements

During the construction period all costs were capitalised as part of leasehold improvements and these included:

- all expenditure (including administrative expenditure) incurred in construction of the assets comprising CityLink up to the date of commencement of operations
- the costs of formation of the Company and Trust, and
- borrowing costs incurred in the establishment of debt facilities.

Interest payments on loans up to the date of commencement of operations on 3 January 2000 are offset against interest receipts and the balance capitalised as part of leasehold improvements.

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

Since the commencement of operations, all costs are recognised in the statement of financial performance. Interest payments on loans and interest receipts are recorded on a gross basis in the statement of financial performance.

f) Amortisation of Leasehold Improvements
Amounts classified as leasehold improvements are amortised over the estimated term of the right granted to the Company to operate CityLink or 33 years and 6 months, whichever is less. Amortisation commenced with operations on 3 January 2000 and is calculated on a straight line basis. The period of amortisation of leasehold improvements will be reassessed annually.

g) Leased Non-Current Assets
Leases of plant and equipment where the combined entity assumes all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments.

Capitalised lease assets are amortised on a straight line basis over the term of the lease or, where it is likely that the combined entity will obtain ownership of the asset, the life of the asset. Leased assets are being amortised over 5 years.

Since the commencement of operations, payments made under operating leases are recognised in the statement of financial performance.

h) Depreciation of Plant and Equipment
Depreciation is calculated on a straight line basis so as to write off the net cost of plant and equipment over their expected useful lives. Estimates of remaining useful lives will be made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:
Plant and Equipment 4 to 15 years

i) Income Tax
Income tax is brought to account in respect of the Company, which has adopted the liability method of tax effect accounting. Income tax expense is calculated on the operating profit of the Company, adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is carried forward in the balance sheet as a future income tax benefit or a deferred tax liability. However, the future tax benefit relating to timing differences and tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax has not been brought to account in respect of the Trust as under the terms of the Trust Deed and pursuant to the provisions of the Income Tax Assessment Act 1936, the Trust is not currently liable for income tax provided that the unitholders are presently entitled to the net income of the Trust.

j) Infrastructure Loan Facilities
The Company has two Infrastructure Loan facilities. Under the terms of these facilities, the Company must provide cash collateral equal to the utilised amounts of the facilities. This cash collateral has been set-off against the outstanding infrastructure borrowing facilities so that no asset or liability in respect of those facilities has been recorded in the balance sheet of the combined entity.

k) CPI Bonds
The Trust has issued CPI Bonds which mature on 15 March 2023. The CPI Bond principal outstanding is adjusted for inflation, consistent with the provisions of Division 16E of the Income Tax Assessment Act 1936.

l) Non Interest Bearing Long Term Debt
Non interest bearing long term debt represented by the Concession Notes has been included in the Project Accounts at the present value of expected future repayments. The present value of expected future repayments is determined using a discount rate applicable to the combined entity's other borrowing arrangements. The present value of expected future repayments will be reassessed periodically.

m) Employee Entitlements
The Company contributes the statutory minimum to superannuation plans as nominated by the employee. The superannuation plans are all accumulation funds.

Liabilities for current and deferred employee compensation and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

During the construction period, the cost of current and deferred employee compensation and contributions to employee superannuation plans were capitalised as part of leasehold improvements. Since the commencement of operations on 3 January 2000 these costs were charged to the statement of financial performance.

n) Financial Instruments
Financial instruments, in the form of interest rate swap contracts, are used to manage financial risks.

Gains and losses on interest rate swaps used as hedges are accounted for on the same basis as the interest payments they are hedging. Since the commencement of operations realised hedge gains and losses are charged to the statement of financial performance when the gains and losses arising on the related physical exposures are recognised.

Unrealised gains and losses on interest rate swaps not effectively hedging an underlying exposure are recognised in the statement of financial performance.

Prior to the commencement of operations on 3 January 2000, gains and losses on interest rate swaps had been capitalised as part of leasehold improvements.

o) Borrowing Costs
Borrowing costs are recognised as expenses in the period in which they are incurred and include:

- Interest on short term and long term borrowings
- Costs incurred in connection with the arrangement of borrowings, and
- Finance lease charges.

Prior to commencement of operations, borrowing costs were capitalised as part of leasehold improvements.

p) Cash Flows
For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks, investments in money market instruments and amounts held on deposit as collateral for the Infrastructure Loan facilities.

q) Conditional Receipts
Where the Company has received payments that are provisional or subject to legal dispute, the total value of the receipts will be accounted for as a liability and will not be reclassified as revenue until the nature of the receipt is virtually certain and supports the classification as revenue.

r) Earnings per Stapled Security
i) Basic Earnings per Stapled Security
Basic earnings per Stapled Security is determined by dividing the profit after income tax attributable to security holders by the weighted average number of Stapled Securities outstanding during the year.

ii) Diluted Earnings per Stapled Security
Diluted earnings per Stapled Security adjusts the figures used in the determination of basic earnings per Stapled Security by taking into account any amounts unpaid on a Stapled Security.

s) Rounding of amounts
The combined entity is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report are rounded off to the nearest thousand dollars in accordance with that Class Order.

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

	2000 $'000	1999 $'000
2 Revenue		
Revenue from operating activities		
Toll revenue	**29,894**	–
Fees revenue	**892**	–
Advertising revenue	**1,204**	–
	31,990	–
Revenue from outside the operating activities		
Interest	**73,334**	–
Other	**8**	–
	73,342	–
Total revenue	**105,332**	–
3 Operating loss		
Expenses		
Losses from ordinary activities before income tax expense includes the following specific expenses:		
Operational expenses	**40,073**	–
Depreciation and amortisation		
CityLink and Exhibition Street Extension	**32,192**	–
Other fixed assets	**187**	–
	32,379	–
Amortisation of plant and equipment under finance lease	**65**	–
Total depreciation and amortisation	**32,444**	–
Borrowing costs		
Interest and finance charges paid/payable	**114,954**	–
Interest rate hedging charges paid/payable	**430**	–
	115,384	–
Provision for employee entitlements	**176**	–
Rental expenses relating to operating leases	**182**	–

	2000 $'000	1999 $'000
4 Income tax		
a) The income tax loss for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:		
Loss from ordinary activities before income tax	**(105,243)**	–
Income tax calculated at 36%	**(37,887)**	–
Tax effect of permanent differences		
Infrastructure borrowing facility interest not deductible	**17,326**	–
Benefit of tax losses not recognised	**20,561**	–
Income tax expense	**–**	–
b) Trust		
Tax Losses at beginning of year	**122,008**	6,308
Tax (Income)/Losses for the year	**(36,919)**	115,700
Tax Losses at end of year	**85,089**	122,008
Company		
Tax Losses at beginning of year	**361,061**	222,753
Tax Losses for the year	**294,168**	138,308
Tax Losses at end of year	**655,229**	361,061

Potential future income tax benefits at 30 June 2000 for tax losses not brought to account for the Company are $196,569,000 (gross $655,229,000). These future income tax benefits are not being brought to account as an asset as they do not meet the requirements of note 1i. Legislation has been introduced to reduce the tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year. It is probable that tax losses not brought to account for the Company will be realised at 30%. The gross tax losses in relation to the Trust are $85,089,000 as at 30 June 2000. These losses cannot be used directly by the Trust for the reason outlined in note 1i, but may be available for the benefit of unit holders in the future.

These benefits of tax losses will only be realised in the Company and for the benefit of unit holders in the Trust if:

i) each entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
ii) each entity continues to comply with the conditions for deductibility imposed by tax legislation;
iii) no changes in tax legislation adversely affect the ability of each entity to realise the benefit from the deductions for the losses; and
iv) favourable rulings are received in respect of certain taxation matters which have been or will be submitted to the Australian Taxation Office (ATO) for an opinion.

Transurban has advice from Senior Counsel that the concession fees should be immediately deductible expenditure. The Project Accounts have been prepared on this basis. Deductions in respect of concession fees account for $413,654,000 of the Company's carried-forward loss of $655,229,000 at 30 June 2000.

An application was made in June 1996 for a private binding income tax ruling from the ATO that the concession fee is an allowable deduction for income tax purposes in the year to which the fee relates. The Company and the ATO were not able to reach agreement on the treatment to be applied to the concession fees, and Transurban withdrew the ruling request in order to allow resolution of this matter to be pursued through the Courts.

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

The ATO has now issued an assessment in respect of the Company's income tax returns for the year ended 30 June 1998 which was amended to treat the concession fees as non-deductible. Transurban lodged an objection to this assessment on 16 August 2000. Both the ATO and Transurban are hopeful that the tax objection process will expeditiously resolve the objection and settle the matter of deductibility.

If the ATO's position on deductibility of the Concession Notes is confirmed, the after tax internal rate of return for an investor subject to the corporate tax rate will be reduced to approximately 85 per cent of the return which would have been achieved if the concession fees were immediately deductible.

	2000 $'000	1999 $'000
5 Cash Assets – Current Assets		
Cash at bank	**102,850**	99,801
	102,850	99,801
The cash at the end of the financial year as shown in the statement of cash flows consists of:		
Cash at bank – as above	**102,850**	99,801
Cash collateral, Infrastructure Loan Facility (see note 1j)	**795,000**	795,000
Cash collateral, Infrastructure Note Facility (see note 1j)	**454,000**	–
	1,351,850	894,801
6 Receivables – Current Assets		
Trade debtors	**3,860**	–
Less: Provision for doubtful debts	**(19)**	–
	3,841	–
Other debtors	**9,330**	5,233
	13,171	5,233
7 Other – Current Assets		
Prepayments	**1,343**	2,952
	1,343	2,952

	2000 $'000	1999 $'000
8 Property, plant and equipment		
a) CityLink Fixed Assets		
CityLink and Exhibition Street Extension (ESE)	**1,902,463**	1,721,473
Less: Accumulated depreciation	**(32,193)**	–
	1,870,270	1,721,473
Equipment and Fittings		
Equipment and fittings at cost	**3,498**	574
Less: Accumulated depreciation	**(480)**	(172)
	3,018	402
Equipment and fittings under finance lease	**979**	979
Less: Accumulated amortisation	**(463)**	(334)
	516	645
Total Property, plant and equipment	**1,873,804**	1,722,520
b) Leasehold improvements included in CityLink and ESE consist of the following:		
Balance brought forward	**1,721,473**	909,053
Costs capitalised		
Construction costs	**69,231**	540,565
Concession fees	**47,800**	95,600
Valuation adjustments on Concession Notes	**(38,636)**	(63,060)
Administrative costs	**14,672**	53,635
Cost of operations	**44,107**	6,804
Cost of tags	**7,331**	28,884
Interest received/receivable	**(50,489)**	(90,495)
Other revenue	**(554)**	(1,327)
Borrowing Costs		
Interest paid/payable	**83,862**	226,512
Finance costs	**3,666**	15,302
	1,902,463	1,721,473
Less depreciation	**(32,193)**	–
	1,870,270	1,721,473

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

c) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the end of the financial year are set out below.

	CityLink and ESE $'000	Equipment and Fittings – at cost $'000	Equipment and Fittings – leased $'000	Total $'000
2000				
Carrying amount at the start of the year	1,721,473	402	645	1,722,520
Additions	180,990	3,096	–	184,086
Disposals	–	–	–	–
Depreciation/amortisation expense charged to statement of financial performance	(32,193)	(187)	(65)	(32,445)
Depreciation/amortisation expense capitalised	–	(293)	(64)	(357)
Carrying amount at year end	1,870,270	3,018	516	1,873,804
1999				
Carrying amount at the start of the year	909,053	153	775	909,981
Additions	812,420	373	–	812,793
Disposals	–	(61)	–	(61)
Depreciation/amortisation expense capitalised	–	(63)	(130)	(193)
Carrying amount at year end	1,721,473	402	645	1,722,520

	2000 $'000	1999 $'000
9 Other – non-current assets		
Prepayments	**–**	3,460
	–	3,460
10 Payables – current		
Trade creditors	**6,440**	1,662
Final EIB distribution	**8,477**	–
Other creditors	**14,561**	28,717
	29,478	30,379

	2000 $'000	1999 $'000
11 Interest bearing liabilities – current		
Lease liabilities	**137**	127
Project Debt – Tranche A	**8,058**	–
	8,195	127
12 Non-interest bearing liabilities – current		
Prepaid tolls	**16,466**	9,754
Provisional payments – Liquidated Damages	**91,378**	–
	107,844	9,754
13 Provisions – current		
Employee entitlements	**580**	233
Retention amounts	**–**	12,909
	580	13,142
14 Interest bearing liabilities – non-current		
CPI Bonds	**348,023**	344,653
Lease liabilities (note 23)	**434**	571
Project Debt – Tranche A	**758,221**	671,606
Project Debt – Tranche B	**98,388**	86,103
Project Debt – Tranche C	**91,009**	79,646
Mezzanine Debt	**200,000**	200,000
Land Transport Notes	**94,549**	–
Loan to Macquarie Bank Ltd	**(94,549)**	–
Infrastructure Loan facility	**795,000**	795,000
Less: Cash collateral (note 1j)	**(795,000)**	(795,000)
Infrastructure Note facility	**454,000**	–
Less: Cash collateral (note 1j)	**(454,000)**	–
	1,496,075	1,382,579

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

Set-off of Assets and Liabilities
A legal right of set-off exists in respect of the specific cash deposits of $795 million, representing collateralisation of liabilities under the Infrastructure Loan facility and $454 million, representing collateralisation of liabilities under the Infrastructure Note facility.

Financing Arrangements and Credit Facilities
Credit facilities are provided as part of the overall debt funding structure and comprise Tranche A, B and C project debt facilities, a CPI Bond facility, an Infrastructure Loan facility, an Infrastructure Note facility, a Mezzanine Debt facility and Land Transport Notes (LTN) facility .

Corresponding option arrangements between the Trust, Company and Macquarie Bank Ltd enable the facilities to revert to interentity loan between the Company and the Trust, effectively providing set off of the LTN liability against the loan to Macquarie Bank Ltd.

Details of each facility are as follows:-

a) Project Debt Facility – Tranche A
$1,165 million multi option facility which can be drawn as cash advances, letters of credit or to provide guarantees to secure the CPI Bond facility. The facility is for a term of 17 years from 4 March 1996. As at 30 June 2000, an amount of $372 million had been utilised under the facility (1999: $365 million) to provide a bank guarantee to secure the CPI Bond facility (refer note 22), $766 million had been utilised in the form of cash advances (1999: $672 million) and $20 million had been used as a letter of credit (1999: nil). The $5.5 million balance of Tranche A is only available as additional CPI Bond guarantee facility.

b) Project Debt Facility -– Tranche B
$98 million multi option facility. The facility is for a term of 19 years from 4 March 1996. The facility had been fully utilised at 30 June 2000 (1999: $86 million).

c) Project Debt Facility –Tranche C
$91 million multi option facility. The facility is for a term of 16 years from 31 March 1999. The facility had been fully utilised at 30 June 2000 (1999: $80 million).

d) CPI Bond Facility
$350 million CPI Bond facility with a term of 27 years which was fully drawn as at 30 June 2000. The facility is being amortised by equal quarterly payments which cover principal and interest. These payments are indexed according to movements in the CPI. Prior to completion of construction, drawings under this facility are secured by cash or bank guarantees provided under Tranche A of the Project Debt facility. Subsequent to completion, this facility will rank pari passu with other project debt facilities.

e) Infrastructure Loan Facility
$795 million facility certified by the Development Allowance Authority to qualify for concessional tax treatment under Division 16L of the Income Tax Assessment Act 1936. The loan is secured by cash collateral equal to the amount of the loan which is set off against the loan liability. The principal of the Infrastructure Loan facility will be repaid from the cash collateral during the nine years from 4 March 1996. The facility was fully drawn as at 30 June 2000.

f) Infrastructure Note Facility
$454 million facility certified by the Development Allowance Authority to qualify for concessional tax treatment under Division 16L of the Income Tax Assessment Act 1936. The loan is to be secured by cash collateral equal to the amount of the loan. The facility was fully drawn as at 30 June 2000.

g) Mezzanine Note Facility
$200 million multi option facility. The facility is for a term of 24 years from 31 March 1999 and was fully drawn down as at 30 June 2000 (1999: $200 million).

h) Land Transport Notes
$94.5 million facility is subject to an Infrastructure Borrowing Taxation Offset Agreement with the Federal Department of Transport and Regional Services. The Noteholders qualify for an income tax rebate on interest received. The facility was fully drawn as at 30 June 2000.

Details of the utilisation of borrowing facilities are as follows: -

	Construction Facilities $'000	Infrastructure Facilities $'000
2000		
Available facilities	1,903,677	1,343,549
Amount utilised	(1,898,165)	(1,343,549)
Amount unutilised	5,512	–
1999		
Available facilities	1,920,500	1,249,090
Amount utilised	(1,752,434)	(795,000)
Amount unutilised	168,066	454,090

All assets are pledged as security for Transurban's liabilities.

	2000 $'000	1999 $'000
15 Non-interest Bearing liabilities – non-current		
Concession Notes	**114,253**	93,423
	114,253	93,423
16 Provisions – non-current		
Employee entitlements	**666**	771
Directors' retirement	**476**	–
	1,142	771
17 Security Holders' equity		
a) Paid up Stapled Securities		
510,000,000 shares (1999: 910,000) in the Company – fully paid	**5,100**	9
510,000,000 units (1999: 910,000) in the Trust – fully paid	**504,900**	901
Nil Equity Infrastructure Bonds (1999: 454,090,000) – fully paid	**–**	454,090
	510,000	455,000
Less: Distributions (see note 17c)	**(171,154)**	(151,209)
	338,846	303,791

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

b) Movements in capital

		Number			Unit price			
Date	Details	Shares '000	Units '000	EIBs '000	Shares	Units	EIBs	Value $'000
1/07/2000	Opening balance	910	910	454,090	$0.010	$0.990	$1.000	455,000
6/12/1999	Redemption of EIBs			(454,090)			$3.482	(1,581,141)
6/12/1999	Subscription	454,090	454,090		$0.010	$3.472		1,581,141
6/12/1999	Deferred Equity	55,000	55,000		$0.010	$0.990		55,000
30/06/2000	Closing balance	510,000	510,000	–				510,000

c) Payments made to security holders during the construction period have been accounted for as a reduction of capital in these Project Accounts although accounted for as interest in the separate financial statements of the Company.

d) The individual securities comprise the Stapled Securities and cannot be traded separately.

e) On 6 December 1999 the Equity Infrastructure Bonds issued by the Company were redeemed at the market price of the bond ($3.482). Under the terms of the issue of the Equity Infrastructure Bonds, holders were obliged to apply all proceeds of redemption to subscriptions for shares in the Company and units in the Trust.

	2000 $'000	1999 $'000
18 Retained losses		
Retained losses		
Retained losses at the beginning of the period	**–**	–
Net losses incurred during the period	**(105,245)**	–
Retained losses at the end of the financial year	**(105,245)**	–
19 Remuneration of directors		
Income paid or payable, or otherwise made available to directors of the Company, by the Company	**1,464**	1,181

The number of directors whose income was within the following specified bands:

	2000 Number	1999 Number
$40,000 – $49,999	**4**	6
$70,000 – $79,999	**1**	–
$110,000 – $119,999	**1**	–
$120,000 – $129,999	**1**	1
$240,000 – $249,999	**–**	1
$340,000 – $349,999	**1**	–
$510,000 – $519,999	**–**	1
$620,000 – $629,999	**1**	–

	2000 $'000	1999 $'000
20 Remuneration of executives		
Remuneration received, or due and receivable, by executives from the Company whose remuneration was at least $100,000:	**2,432**	1,694

The number of executive officers whose remuneration was within the following specified bands:

	2000 Number	1999 Number
$110,000 – $119,999	**1**	–
$140,000 – $149,999	**1**	–
$170,000 – $179,999	**–**	1
$190,000 – $199,999	**–**	1
$200,000 – $209,999	**1**	–
$210,000 – $219,999	**1**	1
$220,000 – $229,999	**1**	–
$240,000 – $249,999	**–**	1
$270,000 – $279,999	**1**	–
$290,000 – $299,999	**1**	–
$340,000 – $349,999	**1**	1
$510,000 – $519,999	**–**	1
$620,000 – $629,999	**1**	–

	2000 $'000	1999 $'000
21 Renumeration of auditors		
Remuneration for the audit or review of the financial reports of the combined entity	**97**	92
Remuneration for other services by the combined entity auditors	**206**	576

22 Contingent liabilities

Challenge to Infrastructure Bond Certificates – Allan v Transurban City Link Ltd

Several persons applied to the Commonwealth Administrative Appeals Tribunal (AAT) for a review of the Development Allowance Authority (DAA) decision to issue infrastructure borrowing certificates in respect of the Infrastructure Loan facilities of the Company. All applications for review were denied.

On 7 August 1997, the Federal Court dismissed an appeal by Mr. Peter Allan against the DAA. Mr Allan then appealed to the Full Federal Court and on 27 February 1998 the Court allowed his appeal and remitted the matter to the AAT for determination of certain factual issues.

The Company applied to be joined as second respondent and became a party to the proceedings. On 9 September 1998 the AAT handed down its decision in favour of the DAA and Transurban.

Mr Allan again appealed and the Federal Court (Justice Merkel) ordered that the matter again be remitted to the AAT for a further hearing. Transurban appealed this decision to the Full Court of the Federal Court.

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

Transurban's appeal of the decision of Justice Merkel to the Full Court of the Federal Court was heard on 30 August 1999 before Chief Justice Black and Justices Hill, Kenny, Marshall and Sundberg. Their decision was handed down on 10 December 1999. The court unanimously rejected Mr Allan's arguments in a single judgement. They found that he did not have standing to challenge the certificates issued by the Development Allowance Authority.

Mr Allan then sought special leave to appeal to the High Court. It is understood that the application may be heard in September 2000.

Guarantee of CPI Bond Facility
An amount of $372 million (redemption price) has been provided under the Bond Funding provisions of Tranche A of the Project Debt facility at 30 June 2000 as a guarantee to secure the CPI Bond facility.

Under the CPI Bond facility, failure to achieve project completion by 20 November 2000 entitles the CPI Bondholders (Bondholders) to redeem the CPI Bonds. The value of the CPI Bonds based on the last sale price is well in excess of the redemption price available to Bondholders. If Bondholders do elect to redeem the CPI Bonds, the Tranche A Financiers would be obliged to pay the redemption amount. Any such payments made by the Tranche A Financiers are reimbursable by Transurban on demand.

Transurban is currently working with the Bondholders to ensure that their decisions in respect of redemption are fully informed. The factors likely to influence the redemption decisions are being regularly monitored and facilities to provide alternative finance in the event of redemption are being developed.

No material losses are anticipated in respect of these contingent liabilities.

	2000 $'000	1999 $'000
23 Capital commitments		
Capital Commitments		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	**6,518**	40,238
Later than one year but not later than 2 years	**–**	–
	6,518	40,238

The Company, together with the Trustee on behalf of the Trust, has entered into a Design and Construct Contract with the Transfield-Obayashi Joint Venture to design and construct CityLink for a fixed price of $1,145 million. The respective principal obligations for payment of this amount are $1,020 million for the Company and $125 million for the Trust, subject to cross guarantees between the Trustee and the Company in relation to their respective obligations. Payments under the Design and Construct Contract make up the majority of the capital commitments in the above table.

	2000 $'000	1999 $'000
Lease Commitments		
Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	**227**	291
Later than one year but not later than 5 years	**392**	407
Later than 5 years	**–**	33
	619	731
Commitments in relation to finance leases are payable as follows:		
Not later than one year	**176**	176
Later than one year but not later than 5 years	**450**	626
Later than 5 years	**–**	–
	626	802
Less: Future finance charges	**55**	104
Total finance lease liabilities	**571**	698
Representing lease liabilities		
Current (note 11)	**137**	127
Non-current (note 14)	**434**	571
	571	698

Concession Fees
The Concession Deed between the Company, the Trust and the Melbourne City Link Authority provides for annual concession fees of $95.6 million during the construction phase and for the first 25 years after the expected completion date of CityLink, $45.2 million for years 26 to 34 and $1 million thereafter if the concession continues beyond year 34. Until a certain threshold return is achieved, payments of concession fees due under the Concession Deed will be satisfied by means of the issue of non-interest bearing Concession Notes to the State. The Concession Notes have been accounted for in accordance with note 1I.

Due to uncertainty in determining when the Concession Note liability will be paid, it has not been included in the aged analysis of amounts payable detailed above.

	2000 $'000	1999 $'000
24 Employee Entitlements		
Employee entitlement liabilities		
Provision for employee entitlements – current	**580**	233
Provision for employee entitlements – non current	**666**	771
	1,246	1,004
	Number	Number
Employee numbers		
Average number of employees during the financial year	**142**	42

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

25 Related party information

Controlling Entities

The Company and the Trust are both ultimate chief entities.

Directors

The name of each person who was a director of the Company at any time during the financial year is as follows: Laurence G Cox, Kimberley Edwards, WH John Barr, Peter C Byers, Geoffrey P Cook, Jeremy GA Davis, Brian D Eslick, Susan M Oliver, Geoffrey R Phillips.

The name of each person who was a director of the Trust Manager at any time during the financial year are as follows:- Michael S Hamson, W Richard Sheppard, Kenneth H Spencer, Anthony L Kahn (alternate for W R Sheppard).

Remuneration and Service Agreements

Remuneration received or receivable by the directors of the Company is disclosed in the Directors' Report and note 19 to the financial statements.

Transactions of Company Directors and their Director-Related Entities Concerning Stapled Securities

The aggregate numbers of Stapled Securities acquired or disposed of and held at 30 June 2000 by directors or their director-related entities were as follows:

	Beneficial	Non Beneficial	Total
Balance at 1 July 1999	1,830	24,200	26,030
Acquired when EIBs redeemed on 6/12/99 and proceeds subscribed in shares and units	928,170	12,050,800	12,978,970
Acquired	–	–	–
Disposed	–	846,506	846,506
Balance at 30 June 2000	930,000	11,228,494	12,158,494

Transactions of Directors of the Trust Manager and their Director-Related Entities Concerning Stapled Securities

The aggregate numbers of Stapled Securities acquired or disposed of and held at 30 June 2000 by directors of the Trust Manager or their director-related entities were as follows:

	Beneficial	Non Beneficial	Total
Balance at 1 July 1999	340	–	340
Acquired when EIBs redeemed on 6/12/99 and proceeds subscribed in shares and units	169,660	–	169,660
Acquired	–	–	–
Disposed	–	–	–
Balance at 30 June 2000	170,000	–	170,000

Company directors and the directors of the Trust Manager and their director-related entities received normal distributions on these Stapled Securities. All transactions relating to Stapled Securities of the combined entity were on the same basis as similar transactions with other Stapled Security holders.

City Link Management Limited, the Trust Manager, is a wholly owned subsidiary of Macquarie Bank Limited specifically created to manage the Trust. Macquarie Bank Limited does not in any way guarantee or stand behind the capital value and/or performance of City Link Management Limited.

Other Transactions with Company Directors and Director Related Entities

Laurence Cox is a director of Macquarie Corporate Finance Limited (a wholly owned subsidiary of Macquarie Bank Ltd), which is contracted to provide general advice on debt and equity finance. He is also a director of Macquarie Bank Ltd.

During the year Laurence Cox acquired 1,754,105 Land Transport Notes issued at $1.00. Richard Sheppard acquired 1,171,498 Land Transport Notes issued at $1.00.

Susan Oliver was formerly chair of FHA Image Design which is contracted to design the CityLink customer statements. During the year, Ms Oliver also provided consultancy services to the value of $34,687.

Until his retirement from Transfield Holdings Pty Ltd, Brian Eslick was Chief Financial Officer and Company Secretary of Transfield Holdings Pty Ltd and as a consequence the entities set out in the following table are deemed to be director-related entities. The table also sets out the nature of the transactions between the Company and these entities.

Company	Transaction
Transfield Pty Ltd	Reimbursement of out of pocket expenses
Transfield-Obayashi Joint Venture	Payments under Design and Construct contract
Translink Operations Pty Ltd	Payments under the Operation and Maintenance Agreement

	2000 $'000	1999 $'000
The aggregate amounts that were either capitalised as part of leasehold improvements or charged to the statement of financial performance that resulted from transactions with Company directors and their director-related entities for each of the above type of transactions were as follows:		
Consulting fees	**38**	3,356
Reimbursement of out of pocket expenses	**15**	20
Design and construct payments	**11,602**	412,074
Operator payments	**14,494**	13,260
	26,149	428,710
All of the above amounts represent payments on normal commercial terms made in relation to the provision of goods and services.		
Aggregate amounts payable to directors and their director related entities at balance date:		
Current liabilities	**1,161**	6,701
Aggregate amounts receivable from directors and their director related entities at balance date:		
Current assets	**44**	–

Other Related Parties

Aggregate amounts that were either capitalised as part of leasehold improvements or charged to the statement of financial performance that resulted from transactions with other related parties were as follows:

	2000	1999
Fees to Trust Manager	**472**	464
Fees to Trustee	**367**	400
Aggregate amounts payable to and receivable from other related parties at balance date:		
Current liabilities	**403**	413

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

26 Investment in controlled entity

Transurban City Link Ltd owns 100 percent of City Link Extension Pty Ltd. The book value of this investment is $12.

The Trust and the Company are treated as the combined entity where neither entity controls the other.

27 Financial instruments disclosure

Financial instruments have been entered into in the normal course of business in order to hedge exposure to interest rate fluctuations. These instruments are not included in the assets or liabilities (as the case may be) of the combined entity, except to the extent detailed hereunder.

Interest Rate Swap Contracts

It is policy to protect the combined entity from variations in interest rates.

Construction Phase – Interest Rate Swaps

Interest rate swap agreements had been entered into that hedged interest paid on funds borrowed during the construction phase. The contracts were settled monthly and swaps were in place for a significant portion of funds borrowed. The notional principal amounts under the swap contracts increased according to the expected use of funds as payments were made. The fixed interest rates resulting from this arrangement were in the range 4.80 per cent and 8.24 per cent per annum.

	2000 $'000	1999 $'000
At 30 June 2000, the notional principal amounts and periods of expiry of the current interest rate swap contracts are:		
Less than a year	**–**	688,280
	–	688,280
At 30 June 2000, the notional principal amounts and periods of expiry of the delayed start interest rate swap contracts are:		
Less than a year	**–**	255,885
	–	255,885

Operations Phase – Interest Rate Swaps

The combined entity has variable interest rate facilities in place to fund operations. Interest rate swap agreements are in place to hedge the borrowing of such funds. Under these swap agreements the combined entity is obliged to pay interest at fixed rates in the range 0.38 per cent to 9.33 per cent per annum and has the right to receive interest at variable rates. At 30 June 2000, the notional principal amounts and periods of expiry of the interest rate swap contracts are:

Less than a year	**26,535**	6,492
1 – 2 years	**43,112**	21,894
2 – 3 years	**56,742**	38,029
3 – 4 years	**46,965**	49,234
4 – 5 years	**49,432**	56,513
5 – 10 years	**386,215**	291,718
10 – 16 years	**324,501**	408,264
	933,502	872,144

Interest Rate Risk

The combined entity's exposure to interest rate risk and the effective rates on financial assets and liabilities at 30 June 2000 were:

	Notes	Floating interest rate $'000	Fixed Interest maturing in: 1 year or less $'000	between 1 & 5 years $'000	more than 5 years $'000	Non interest bearing $'000	Total $'000
Financial Assets							
Cash	5	102,850	–	–	–	–	102,850
Sundry debtors	6	–	–	–	–	13,171	13,171
Loan to Macquarie Bank Ltd	14	–	–	94,549	–	–	94,549
Cash collateral	5	–	–	–	1,249,000	–	1,249,000
Total Financial Assets		102,850	–	94,549	1,249,000	13,171	1,459,570
Weighted average interest rate		5.43%	–	8.50%	11.20%	–	–
Financial Liabilities							
Trade creditors	10	–	–	–	–	29,478	29,478
Prepaid tolls	12					107,844	107,844
CPI Bonds	14	–	–	–	348,023	–	348,023
Lease liabilities	11,14	–	137	434	–	–	571
Project debt borrowings	14	1,155,676	–	–	–	–	1,155,676
Concession Notes	15	–	–	–	–	114,253	114,253
Land Transport Notes	14	–	–	94,549	–	–	94,549
Interest rate swaps		(933,502)	26,535	582,466	324,501	–	–
Infrastructure loan facility	14	–	–	1,249,000	–	–	1,249,000
Total Financial Liabilities		222,174	26,672	1,926,449	672,524	251,575	3,099,394
Weighted average interest rate		7.33%	5.80%	5.79%	7.82%	–	–
Net Financial Assets/(Liabilities)		(119,324)	(26,672)	(1,831,900)	576,476	(238,404)	(1,639,824)

Notes TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2000

The combined entity's exposure to interest rate risk and the effective rates on financial assets and liabilities at 30 June 1999 were:

	Notes	Floating interest rate $'000	Fixed Interest maturing in: 1 year or less $'000	between 1 & 5 years $'000	more than 5 years $'000	Non interest bearing $'000	Total $'000
Financial Assets							
Cash	5	99,801	–	–	–	–	99,801
Sundry debtors	6	–	–	–	–	5,233	5,233
Cash collateral	5	–	–	–	795,000	–	795,000
Total Financial Assets		99,801	–	–	795,000	5,233	900,034
Weighted average interest rate		4.58%	–	–	11.20%	–	–
Financial Liabilities							
Trade creditors	10	–	–	–	–	30,379	30,379
CPI Bonds	14	–	–	–	344,653	–	344,653
Lease liabilities	11,14	–	127	571	–	–	698
Prepaid Toll Accounts	12	–	–	–	–	9,754	9,754
Project debt borrowings	14	1,037,355	–	–	–	–	1,037,355
Concession Notes	15	–	–	–	–	93,423	93,423
Interest rate swaps		(688,280)	688,280	–	–	–	–
Infrastructure loan facility	14	–	–	–	795,000	–	795,000
Total Financial Liabilities		349,075	688,407	571	1,139,653	133,556	2,311,262
Weighted average interest rate		6.10%	7.84%	7.70%	7.93%	–	–
Net Financial Assets/(Liabilities)		(249,274)	(688,407)	(571)	(344,653)	(128,323)	(1,411,228)

	Notes	2000 $'000	1999 $'000
Reconciliation of Net Financial Assets to Net Assets			
Net financial assets/(liabilities) as above		**(1,639,824)**	(1,411,228)
Non-financial assets and liabilities			
Property, plant and equipment	8	**1,873,804**	1,722,520
Other assets	7,9	**1,343**	6,412
Other liabilities	13,16	**(1,722)**	(13,913)
Net assets per balance sheet		**233,601**	303,791

Liabilities under the CPI Bond facility have been classified as fixed rate liabilities maturing beyond five years for the following reasons:

- The amount of principal expected to be retired through annuity payments over the next four years is not material; and
- The outstanding principal, while subject to indexation for movements in the CPI, is effectively hedged against the effect of such movements as toll revenue which is the major component of the combined entity's revenues, is also indexed for movements in the CPI.

Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets is the carrying amount net of any provisions for doubtful debts.

Net Fair Values of Financial Assets and Liabilities

The carrying amount and net market value of financial assets and liabilities brought to account at balance date are the same.

The aggregate net fair value of interest rate swaps not recognised in the balance sheet (refer note 1n) held at 30 June 2000 is a liability of $85 million (1999: $75 million).

As these contracts are hedging anticipated future interest payments, any unrealised gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction.

The valuation of interest rate swaps reflects the estimated amounts which the combined entity expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at 30 June 2000. This is based on independent market quotations and is determined using accepted valuation techniques.

28 Segment information

The combined entity operates in one geographic segment in Victoria, Australia and one industry segment being the design, construction and operation of the Melbourne City Link.

	2000 $'000	1999 $'000
29 Reconciliation of operating loss after income tax to net cash flow from operating activities		
Operating loss after income tax	**(105,243)**	–
Depreciation and amortisation	**32,444**	–
Decrease in prepayments	**908**	–
Increase in creditors	**8,062**	–
(Increase) in debtors	**(6,489)**	–
Revaluation of Concession Notes	**11,665**	–
Increase in provisions	**582**	–
Net cash outflow from operating activities	**(58,071)**	–

	2000	1999
30 Earnings per stapled security		
Basic Earnings per Stapled Security	**($0.22)**	Nil cents per Stapled Security
Diluted Earnings per Stapled Security	**($0.22)**	Nil cents per Stapled Security
Weighted average number of Stapled Securities outstanding during the year used in the calculation of basic earnings per Stapled Security	**486,191,781**	910,000

31 Economic dependency

The Trust will be reliant on the receipt of rental payments from the Company for its ongoing viability and in turn the Company is reliant on the Trust for the ongoing funding of operations.

Directors' declaration

The directors of Transurban City Link Limited (the Company) and the directors of City Link Management Limited as Manager of the Trust (the Trust Manager) declare that:

a) the financial statements and notes of the Project comply with accounting standards and other mandatory professional reporting requirements;
b) the financial statements and notes of the Project give a true and fair view of the Project's financial position as at 30 June 2000 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
c) in the opinion of the directors of the Company and the directors of the Trust Manager, the financial statements and notes of the Project are in accordance with the Corporations Law, including sections 296 and 297.

The directors of the Company declare that in their opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors of the Trust Manager declare that in their opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors of Transurban City Link Limited

Laurence G Cox AO
Chairman

Kimberley Edwards
Managing Director

Melbourne
30 August 2000

This declaration is made in accordance with a resolution of the directors of City Link Management Limited

Michael S Hamson
Chairman

Kenneth H Spencer
Director

Melbourne
30 August 2000

Independent audit report

PRICEWATERHOUSECOOPERS

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DX 77 Melbourne

Independent Audit Report to the Stapled Security Holders of Transurban City Link Limited and The Transurban City Link Unit Trust

Scope

We have audited the Project Accounts of the combined entity for the financial year ended 30 June 2000 as set out on pages 30 to 54. The Company's directors, the directors of the Trust Manager and the Trustee of the Trust are responsible for the Project Accounts which includes the financial statements of the Combined Entity comprising Transurban City Link Limited and Controlled Entity and The Transurban City Link Unit Trust. We have conducted an independent audit of the Project Accounts in order to express an opinion on them to the stapled security holders of Transurban City Link Limited and The Transurban City Link Unit Trust.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the Project Accounts are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Project Accounts, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Project Accounts are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law in Australia so as to present a view which is consistent with our understanding of the Combined Entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the Project Accounts of the Combined Entity is in accordance with:

(a) the Corporations Law, including:
 (i) giving a true and fair view of the Combined Entity's financial position as at 30 June 2000 and of it's performance for the financial year ended on that date; and
 (ii) complying with Accounting Standards and the Corporations Regulations; and
(b) other mandatory professional reporting requirements; and
(c) in accordance with the provisions of the Trust Deed.

PricewaterhouseCoopers
Chartered Accountants

P J Fekete
Partner

Melbourne
30 August 2000

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)

Security holder information

The security holder information set out below was applicable as at 25 August 2000.

A Distribution of Stapled Securities

1 The number of holders of Stapled Securities, which comprise one share in the Company with an issue price of $0.01 and one unit in the Trust with an issue price of $0.99, was 10,966.
2 The voting rights are one vote per share.
3 The percentage of the total holdings held by or on behalf of the twenty largest holders of these securities was 63.04%.
4 The distribution of holders was as follows:

Share Grouping	Number of Holders	Stapled Securities Held	%
1–1,000	3,091	2,648,486	0.52
1,001 – 5,000	5,040	15,625,878	3.06
5,001–10,000	1,529	12,437,596	2.44
10,001–100,000	1,127	28,090,727	5.51
100,001–and over	179	451,197,313	88.47
Total	10,966	510,000,000	100.00

There were 37 holders of less than a marketable parcel of ordinary shares.

5 Substantial Shareholder notices have been received as follows:

	Number of Stapled Securities	% of Total
Commonwealth Bank of Australia Group	98,241,215	19.26
Permanent Trustee Company Limited	67,843,000	13.30
Macquarie Bank Limited	54,257,956	10.64
Mercury Asset Management	42,446,500	8.32
Transfield (TCL) Pty Limited	36,407,000	7.14
Citibank Limited	30,460,500	5.97
Principal Mutual Holding Company	25,577,686	5.02

B Twenty Largest Holders of Stapled Securities

	Number of Stapled Securities Held	Percentage of Issued Stapled Securities
Obayashi Corporation	50,000,000	9.80
Chase Manhattan Nominees	25,065,513	4.91
Permanent Trustee Australia Limited (FIR0020 account)	23,799,655	4.67
Transfield (TCL) Pty Limited	21,407,000	4.20
National Nominees Limited	20,602,882	4.04
Permanent Trustee Australia Limited (FIR0027 account)	17,976,000	3.52
Permanent Trustee Australia Limited (FIR0018 account)	17,350,795	3.40
AMP Nominees Pty Limited	15,772,124	3.09
Hyder Overseas Investments Limited	15,000,000	2.94
Westpac Custodian Nominees	14,631,649	2.87
BT Custodial Services Pty Ltd (Equi account)	14,548,282	2.85
AMP Life Limited	13,811,130	2.71
Transfield (PTAL) Pty Ltd	13,750,000	2.70
Utilities of Australia Pty Ltd (Utilities of Aust account)	12,500,000	2.45
Permanent Trustee Australia Limited (FIR0014 account)	9,796,305	1.92
Perpetual Trustees Victoria Limited (MTRAEF account)	8,984,050	1.76
Hastings Funds Management Limited (AREF Aust Infra Fund account)	7,500,000	1.47
Perpetual Trustees Victoria Limited (Imputa account)	6,553,672	1.29
Citicorp Nominees Pty Limited	6,460,967	1.27
Mercantile Mutual Life Insurance Company Limited	6,039,391	1.18
Total	321,549,415	63.04

Enquiries About Your Stapled Securities
The Stapled Securities Register is maintained by National Registry Services Pty Limited. If you have a question about your Transurban Securities, transfer of securities or distributions, please contact:
National Registry Services Pty Limited
Level 23
367 Collins Street
Melbourne Victoria 3000
Telephone 613 9275 7999
Facsimile 613 9670 6373

Enquiries About Transurban
Contact Transurban's Investor Relations:
Company Secretary
Telephone 613 9612 6999
Facsimile 613 9649 7380

Or write to:
Company Secretary
Transurban City Link Limited
Level 43 Rialto South Tower
525 Collins Street
Melbourne Victoria 3000

Emails may be sent to our web-site
www.transurban.com.au

Stock Exchange Listing
The Stapled Securities are listed on the Australian Stock Exchange under the name Transurban Group and under the code 'TCL'. The securities participate in the Clearing House Electronic Subregister System (CHESS).

Removal From Annual Report Mailing List
Security Holders can nominate not to receive an Annual Report by written notice to the Stapled Securities Register. Security holders will continue to receive all other shareholder information, including Notice of Annual General Meeting and proxy form.

Tax File Number (TFN) Information
While it is not compulsory for security holders to provide a TFN, the Company is obliged to deduct tax from distributions or dividends to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may do so by writing to the Stapled Securities Register.

Change of Address or Name
A security holder should notify the Register immediately, in writing, if there is any change in her or his registered address or name.

EMERY VINCENT DESIGN