**The Financial Report of**

# Transurban Holdings Limited

**(ABN 86 098 143 429)**

# and

# Controlled Entities

**(Including Transurban International Limited**
**and**
**Transurban Holding Trust)**

**For the Year Ended**

## 30 June 2007

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This financial report covers the Transurban Group which consists of Transurban Holdings Limited, Transurban Holdings Trust and Transurban International Limited and their controlled entities as described in Note 1 to the Financial Statements. The financial report is presented in the Australian currency.

The equity securities of the parent entities are stapled and cannot be traded separately.

Entities within the group are domiciled and incorporated in Australia, the United States of America or Bermuda. Its registered office and principal place of business is:

Level 43 Rialto South Tower

525 Collins Street

Melbourne VIC 3000

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally. All releases to the ASX and the media, financial reports and other information are available on our website: www.transurban.com.au

The financial report was authorised for issue by the directors on 21 August 2007. The Group has the power to amend and reissue the financial report.

## Directors' Report

The directors of Transurban Holdings Limited, Transurban International Limited and Transurban Infrastructure Management Limited as Responsible Entity for Transurban Holding Trust present their report on the Transurban Group for the year ended 30 June 2007.

## Group Accounts

These Group Accounts have been prepared as an aggregation of the financial statements of Transurban Holdings Limited and controlled entities ("THL"), Transurban Holding Trust and controlled entities ("THT"), and Transurban International Limited and controlled entities ("TIL") as if all entities operate together. They are therefore treated as a combined entity ("the combined entity" or "Group"), notwithstanding that none of the entities controls any of the others.

The financial statements have been aggregated in recognition of the fact that the securities issued by THL, THT and TIL are stapled into parcels ("Stapled Securities"), comprising one share in THL, one share in TIL and one unit in THT. None of the components of the Stapled Security can be traded separately.

Prior to 3 January 2007, Stapled Securities comprised one share in THL, one unit in THT and one share in Transurban Limited ("TL"). On 3 January 2007 the composition of the Stapled Security was restructured, as approved by security holders at the Group's AGM on 23 October 2006. The restructure involved the removal of shares in TL from the triple stapled security, and such shares being replaced by shares in TIL. As such, comparative information for the 2006 financial year relates to the aggregation of THL, THT and TL.

## Directors

With the exception of the changes noted below, the following persons were directors of Transurban Holdings Limited and Transurban Infrastructure Management Limited during the whole of the financial year and up to the date of this report. In addition, with the exception of the changes noted below, the following persons were directors of Transurban International Limited from 18 September 2006 and up to the date of this report. Further, with the exception of the changes noted below, the following persons were directors of Transurban Limited from 1 July 2006 until Transurban Limited ceased to be part of the triple staple on 3 January 2007.

| | Transurban Holdings Limited | Transurban Infrastructure Management Limited | Transurban International Limited | Transurban Limited |
|---|---|---|---|---|
| **Non-executive Directors** | | | | |
| David J Ryan AO [(1)] | √ | √ | √ | √ |
| Laurence G Cox AO[(2)] | √ | √ | √ | √ |
| Peter C Byers [(3)] | √ | √ | | √ |
| Geoffrey O Cosgriff | √ | √ | | √ |
| Jeremy G A Davis | √ | √ | | √ |
| Susan M Oliver | √ | √ | | √ |
| Christopher J S Renwick AM | √ | √ | | √ |
| James Keyes [(4)] | | | √ | |
| Jennifer Eve [(4)] | | | √ | |
| **Executive Directors** | | | | |
| Kimberley Edwards | √ | √ | √ | √ |

[(1)] David J Ryan was appointed as a non-executive director of TIL on 28 February 2007, and elected as Chairman of THL, TIL and TIML on 28 February 2007 following Mr Cox's resignation as Chairman.

[(2)] Laurence G Cox was Chairman and a non-executive director of THL and TIML from the beginning of the financial period until his resignation on 28 February 2007, and Chairman and non-executive director of TL from the beginning of the period until 3 January 2007. Mr Cox was also Chairman and a non-executive director of TIL from 18 September 2006 until his resignation on 28 February 2007.

[(3)] Peter C Byers was a non-executive director of THL, TIML and TL from the beginning of the financial period until his retirement on 23 October 2006.

[(4)] James Keyes and Jennifer Eve were appointed non-executive directors on 18 September 2006 and continue in office at the date of this report.

**Principal Activities**

During the year the principal continuing activities of the Group consisted of:

(a) Operation of CityLink, Hills M2 and the Pocahontas Parkway;

(b) Provision of the tolling and customer management system for the Westlink M7 Motorway project;

(c) Tendering for participation in and/or acquisition of other toll roads;

(d) Development of electronic tolling and other intelligent transport systems for implementation in both domestic and international markets; and

(e) Identification and development of infrastructure projects in accordance with the investment strategies of Transurban Group entities.

The following significant changes in the nature of the activities of the Group occurred during the year:

(a) New activity resulting from acquisition of Sydney Roads Group.

**Results**

The result of operations for the financial year ended 30 June 2007 was an operating loss of $152.2 million (2006: $60.9 million).

**Distributions**

Distributions paid to members during the financial year were as follows:

| | **2007** **$'000** | 2006 $'000 |
|---|---|---|
| **Distributions proposed** | | |
| Final distribution payable and recognised as a liability: 27.5 cents (2006 - 25.5 cents) per fully paid stapled security payable 27 August 2007 | **294,744** | 207,422 |
| **Distributions paid during the year** | | |
| Final distribution for 2006 financial year of 25.5 cents (2005 - 18.0 cents) per fully paid Stapled Security paid 25 August 2006 | **207,422** | 142,443 |
| Interim distribution for 2007 financial year of 26.5 cents cents (2006 - 24.5 cents) per fully paid Stapled Security paid 28 February 2007 | **220,989** | 194,188 |
| Total distributions paid | **428,411** | 336,631 |
| Distributions paid in cash or satisfied by the issue of Stapled Securities under the distribution reinvestment plan during the years ended 30 June 2007 and 30 June 2006 | | |
| Paid in cash | **197,408** | 243,240 |
| Executive loans - repayments | **1,230** | 352 |
| Satisfied by issue of Stapled Securities | **229,756** | 93,007 |
| Funds available for future distribution reinvestment plans | **17** | 32 |
| | **428,411** | 336,631 |

**Review of Operations**

**(a) CityLink Melbourne**

Traffic volume for the year ended 30 June 2007 exceeded 241.0 million transactions, representing a 3.1 per cent increase on the prior corresponding period. The growth in transaction volume combined with the toll escalation as provided for in the Concession Deed, resulted in toll and fee revenue (net of GST) of $331.5 million, an increase of 8.8 per cent over the prior year.

Key outcomes for the year ended 30 June 2007 include:

- A new daily record of 843,067 transactions was achieved on 8 December 2006.
- Increased traffic volumes on Western Link associated with the opening of the inbound and outbound section of the Tullamarine / Calder Freeway Interchange upgrade project. The inbound section was opened on 8 October 2006 with the outbound section subsequently opening on 25 February 2007.
- An increase in toll prices for taxi travel on 1 January 2007. This is the first stage of agreed pricing for calendar years 2007 and 2008.
- Customer account numbers continue to grow. As at 30 June 2007 there were 808,000 accounts (including 98,000 Access accounts) an increase of 5.8 per cent over the previous year. There are 1,097,000 e-TAGs linked to e-TAG accounts.
- CityLink achieved all of its customer service performance requirements with respect to the CityLink Customer Charter.
- A multi-vehicle crash and consequent fire in the Burnley Tunnel on 23 March 2007 forced the closure of both the Burnley and Domain tunnels to allow for the safe evacuation of more than 400 people. The Domain Tunnel reopened later that day and after four days of repairs and testing the Burnley Tunnel was reopened. A coronial investigation has begun and the State Government has foreshadowed a road rule change banning lane changing in any Victorian tunnels.

**(b) Hills Motorway Group**

During the year, the Hills Motorway ("M2") celebrated its tenth anniversary after opening for traffic in May 1997.

Traffic volume for the year ended 30 June 2007 was 32.2 million transactions representing a growth of 7.5 per cent over the prior year. A new daily record of 114,880 trips occurred on 5 April 2007 with annual average daily traffic ("AADT") for the year ended 30 June 2007 increasing to 88,389 vehicles from 82,186 in the previous year.

The introduction of ETC Express Lanes in February 2006 and the opening of the Lane Cove Tunnel ("LCT") in March 2007 have contributed to an increase in electronic tolling transactions from 80.0 percent in 2006 to 89.0 per cent for the current period.

Toll revenue for the year was $112.0 million, an increase of 16.9 per cent over the previous year. Toll revenue was assisted by:

- An increase in toll price for Heavy vehicles at North Ryde toll point on 1 July 2006, the first price increase since April 2005;
- An increase in toll price for cars at North Ryde toll point on 1 October 2006, the first price increase since July 2003;

- An increase in toll price for Heavy vehicles at the Pennant Hills toll point on 1 January 2007, the first price increase since July 2004;
- Increased traffic due to continued growth on the Westlink M7 toll road; and
- Opening of the Lane Cove Tunnel on 25 March 2007.

During the year Transurban alleviated a key congestion point on the M2 when the NSW Roads and Traffic Authority ("RTA") approved the opening of an interim third lane. The third lane, which is located on the westbound carriageway between Lane Cove Road and Beecroft Road has reduced the congestion during the afternoon peak period and improved traffic flow from the LCT. Construction was completed in late March 2007.

**(c) Westlink M7**

The Westlink M7 Motorway has continued to steadily build patronage throughout the year following its opening in December 2005. The average daily trips for the quarter ended 30 June 2007 increased by 16.8 per cent over the corresponding period last year. Revenue on Westlink M7 was $146.5 million (including GST) for the year ended 30 June 2007.

Transurban increased its equity interest from 45.0 per cent to 47.5 per cent in Westlink during the period by exercising a portion of its share in pre-emptive rights over Abigroup Limited's 5.0 per cent holding in the Motorway. Transurban and Macquarie Infrastructure Group have equal pre-emptive rights over the remaining 5.0 per cent held by Leighton Holdings Limited.

**(d) Roam Tolling Pty Ltd**

This financial year was the first full year of operations for Roam Tolling who operate the "Roam" brand and are responsible for the provision of tolling and customer service responsibilities for Westlink M7.

Customer account numbers have continued to grow. At 30 June 2007 there are 146,000 e-TAG accounts and 34,000 e-PASS accounts, representing annual increases of 38.0 per cent and 77.0 per cent respectively. Nearly 52,000 e-TAGs were issued to customers during the year and the number of vehicles registered with Roam has increased by 46.0 per cent to 303,000. In the last 12 months there have been 305,000 Visitor's e-PASS accounts opened for temporary use of the motorway.

Roam achieved all of its customer service performance requirements with respect to the Roam Customer Charter.

**(e) Tollaust Pty Ltd**

Tollaust are the operators of the Hills Motorway in Sydney and perform operations and maintenance activities on the M2. In addition Tollaust operates the Roam Express tolling brand. Its customer base has continued to grow with 63,000 accounts and 99,000 Roam Express tags in circulation at 30 June 2007.

Roam Express tag transaction volume for the year ended 30 June 2007 exceeded 16.5 million, representing a 24.0 per cent increase on the previous year.

In conjunction with the March opening of Lane Cove Tunnel, Roam Express successfully launched their Visitor e-PASS product for motorists without an e-TAG and established themselves as the preferred tag supplier for the tunnel. The Visitor e-Pass is also operating on the M2 with other Sydney roads due to follow shortly.

**(f) Pocahontas Parkway – Virginia USA**

The Pocahontas Parkway celebrated its first anniversary of operations as a Transurban Group asset on 29 June 2007.

Traffic increased during the year by 3.1 per cent to 6.0 million transactions. Toll revenue increased by 8.7 per cent to USD $12.8 million and a new daily record of 22,192 transactions was achieved on 6 June 2007.

Despite lower than expected traffic performance during the first half of the year due primarily to record high fuel prices in the USA, traffic has steadily grown throughout the year. Recent performance has been strong with the June 2007 quarter recording year on year traffic growth of 7.1 per cent.

**(g) Sydney Roads Group (SRG)**

Transurban achieved effective control of the Sydney Roads Group ("SRG") on 11 April 2007. As a result of the acquisition Transurban holds investments in the Eastern Distributor (M1), Interlink Roads Limited (M5) and Statewide Roads Limited (M4 Motorway) in New South Wales.

**i) M1 Eastern Distributor – Airport Motorways Limited**

The Eastern Distributor ("ED") is a 6 kilometre motorway linking the Sydney Central Business District with the Airport and connects directly with the Cross City Tunnel, Sydney Harbour Tunnel and the Sydney Harbour Bridge. It features a 1.7 kilometre tunnel running from Woolloomooloo to Surrey Hills. The ED tolls all northbound traffic, with toll plazas at Woolloomooloo and the William Street exit.

Transaction volume for the year ended 30 June 2007 was 16.6 million, representing a 2.8 per cent increase on the prior year. Annual average daily traffic ("AADT") for the quarter ended 30 June 2007 was 46,076 transactions (51,824 for weekdays).

Toll revenue (net of GST) for the year ended 30 June 2007 was $69.9 million, a 5.7 per cent increase over the previous year.

**ii) M4 – Statewide Roads Limited**

The M4 motorway is a 50 kilometre road which extends from Concord / North Strathfield to Lapstone in the west of Sydney. Statewide Roads Ltd ("SWR") operates and maintains 2 sections of the Motorway being a 2.5 kilometre section between Silverwater Road and James Ruse Drive at Auburn and a 10.0 kilometre section between May's Hill and Prospect. SWR operates and maintains these sections in accordance with a concession arrangement with the NSW Roads and Traffic Authority which expires in February 2010. The remainder of the M4 is operated by the RTA.

SWR also has a separate concession for a service centre which is located between the Westlink M7/M4 Light Horse interchange and Reservoir Road. This concession is in place until 2017.

Transaction volume for the year ended 30 June 2007 was 39.1 million, representing a 2.3 per cent increase on the prior year. AADT for the quarter ended 30 June 2007 was 106,938 (117,925 for weekdays).

Toll revenue (net of GST) for the year ended 30 June 2007 was $85.5 million, an increase of 2.3 per cent over the previous year.

### iii) M5 – Interlink Roads Limited

The M5 is a transit corridor spanning 22 kilometres of Sydney's south west from Casula to Beverly Hills near King George's road. The M5 links the M5 East Motorway which is owned and managed by the RTA from King Georges Road to Sydney Airport.

Transaction volume for the year ended 30 June 2007 was 41.0 million, representing a 2.7 per cent increase over the prior year with transactions associated with trucks increasing by 14.0 per cent. AADT for the quarter ended 30 June 2007 was 111,684 (121,359 for weekdays).

Toll revenue (net of GST) for the year ended 30 June 2007 was $148.8 million, an increase of 15.0 per cent over the previous year.

**E-way**

E-way is Interlink's customer management business that issues tags for M5, M1 and M4.

E-way continues to grow strongly with approximately 4,000 new tags issued and 1,500 new accounts opened per month during 2007. It now has more than 441,000 tags associated with 267,000 accounts.

## (h) Business Development

During the period the Transurban Group continued to pursue new business development opportunities in both the Australian and International markets. Achievements and developments during the year include:

### i) I-495/Capital Beltway Project – Virginia USA

Transurban is partnering with Fluor Corporation to investigate the feasibility of developing High Occupancy Toll ("HOT") lanes along a 22.4 kilometre segment of the Capital Beltway (I495) in Northern Virginia, USA.

The Transurban-Fluor team signed a development agreement with the Virginia Department of Transportation ("VDOT") in 2005 and now that the project has achieved environmental approvals it is currently in the process of negotiating a concession agreement. In the event that financial close is achieved, Transurban will act as both an investor and tolling operator of the HOT lanes.

Once operational, Transurban will be responsible for managing the tolling, and long-term operations and maintenance.

### ii) I-95 / 395 Virginia Project – Virginia USA

In October 2006, the Transurban-Fluor Enterprises consortium signed a development agreement with VDOT to progress with the development of the 94 kilometre HOV/Bus/HOT lane project in Northern Virginia. The development includes preliminary engineering work and detailed design and feasibility studies. A final agreement will be signed with VDOT once federal environmental approvals have been obtained and financial feasibility has been established.

Once operational, Transurban will be responsible for managing the tolling, and long-term operations and maintenance.

### iii) Richmond Airport Connector – Virginia USA

The Airport Connector Road ("ACR") is 2.5 kilometres in length, connecting the Pocahontas Parkway (Route 895) to Charles City Road and Airport Drive at the Richmond International Airport in Virginia, USA. The ACR will provide a more direct route to the Airport for residents and business to the east and south-east of Richmond.

Transurban agreed to undertake the construction of the ACR, as part of the Amended and Restated Comprehensive Agreement ("ARCA") with VDOT, subject to successfully gaining Federal Transportation Infrastructure Finance Innovation Act funding which was approved on 12 June 2007. Transurban's financial commitment to construct the ACR is capped at USD$45.2 million. Costs in excess of the cap are the responsibility of VDOT.

The ACR will be operated as a toll road and upon completion Transurban will be the sole Manager/Operator of the road. Construction is expected to commence in early 2008 with completion scheduled for early 2010.

### iv) Highway 1 and Port Mann Bridge – Vancouver, Canada

Transurban is partnering with Bilfinger Berger BOT Inc. to prepare a bid for the Port Mann/Highway 1 Project in Vancouver, Canada.

The Port Mann/Highway 1 Project will be a fully electronic toll road that comprises the replacement of the Port Mann Bridge, the widening of Highway 1 from two to four lanes over 37 kilometres and the upgrading of major interchanges. It will be undertaken as a public-private partnership by the British Columbia Ministry of Transportation with assistance from Partnerships British Columbia.

Transurban was advised in August 2007 that it has been short-listed with two other parties. In the event that Transurban is successful in securing the project, it will act as both an investor and operator of the project.

### v) West Gate – CityLink – Monash Freeway corridor improvement project

Transurban reached agreement with the State of Victoria ("the State") and VicRoads to jointly fund upgrades and improvements to 75 kilometres of the Westgate-CityLink-Monash Freeway corridor. The CityLink component of the upgrade, estimated to cost $166.0 million over a three year construction period, will be funded by Transurban with the State funding the non-CityLink works.

The agreement includes the assignment of all remaining and future concession note liabilities incurred under the provisions of the CityLink Concession Deed to Transurban from the State for a deferred consideration of $614.0 million. Revenue associated with the development will be shared between Transurban and the State once Transurban has fully recovered its capital cost and any lost revenue from the construction phase of the CityLink upgrades.

Transurban has entered into an Alliance contract with Abigroup Contractors and Maunsell Australia to design and construct the upgrade of the CityLink Southern Link section. Detailed investigation and design has been undertaken to enable construction to commence in September 2007 with completion expected in mid 2009.

The State has entered into Alliance contracts for the West Gate and Monash Freeway upgrades and is currently undertaking design to enable the commencement of construction in September 2007.

Transurban and the State are working together to coordinate the works across the project in an attempt to manage the time and cost of construction whilst minimising traffic disruption and the impact on stakeholders.

**vi) Additional Investment in Westlink M7**

On 29 September 2006, Transurban completed its acquisition of an additional 2.5 per cent equity interest in Westlink M7. The acquisition involved Transurban exercising its pre-emptive rights following Abigroup Limited's decision to sell its interest.

Transurban now has a 47.5 per cent interest in Westlink M7 with itself and Macquarie Infrastructure Group having equal pre-emptive rights over the remaining 5.0 per cent held by Leighton Holdings Limited.

**vii) Sydney Roads Group Merger**

Transurban achieved effective control of the Sydney Roads Group ("SRG") on 11 April 2007. As a result of the acquisition Transurban holds investments in the Eastern Distributor (M1), Interlink Roads Limited (M5) and Statewide Roads Limited (M4 Motorway) in New South Wales.

The net contribution of SRG (before tax) to the Transurban result was a loss of $18.9 million. The result represents SRG operational contribution from the date of control 11 April 2007 to 30 June 2007. Included in this result is additional depreciation of $18.1 million on the increase of the fair value of assets and liabilities acquired. Excluding the effect of the additional depreciation, the SRG contribution for the period was a loss of $0.8 million.

## Significant Changes in the State of Affairs

**a) Additional Investment in Westlink M7**

Refer to item (h) (vi) of Review of Operations

**b) Sydney Roads Group Merger**

Refer to item (h) (vii) of Review of Operations

**c) Income Tax**

On 20 July 2006, the High Court of Australia ruled in favour of Transurban in relation to the tax deductibility of the concession fees Transurban pays to the State of Victoria under the Melbourne CityLink Concession Deed. The case was heard by the High Court of Australia after the Australian Taxation Office appealed the unanimous judgement of the Full Court of the Federal Court in October 2004.

The High Court awarded the costs of the legal action to Transurban.

**d) Transurban Group Restructure**

At the Annual General Meeting on 23 October 2006, Transurban's directors received approval from security holders to implement a change to the Transurban Group's Stapled Security Structure (one share in Transurban Holdings Limited, one unit in Transurban Holding Trust and one share in Transurban Limited). The restructure which occurred on 3 January 2007 involved the destapling of shares in Transurban Limited from the structure of the triple stapled security and replaced such shares with shares in Transurban International Limited.

At the completion of the restructure, Transurban Limited became a wholly-owned subsidiary of Transurban Holdings Limited and Transurban International Limited, a new Bermuda exempted mutual fund company, replaced Transurban Limited as a part of the triple stapled security.

The introduction of the new structure creates a more efficient vehicle for which investments in international assets can be made and allows for security holder distributions from these investments to be executed in a timely and efficient manner.

**e) Refinancing**

During the year Transurban refinanced short term debt facilities through the following debt issues:

- A US private placement of US $350.0 million on 14 November 2006. Proceeds of the placement have been applied to the USD Bridge Facility and Working Capital Facilities. The placement consisted of four tranches with tenures of 10, 12, 15 and 20 years respectively and is capital accretive for 5 years.
- AUD $300 million non-credit wrapped bond issue in September 2006 to refinance existing Working Capital Facilities. The issue consisted of two tranches of fixed and floating rate bonds with terms of 5 years.

**f) Maturity of Infrastructure Loan and Note Facilities**

In April 2007, Infrastructure Loan and Note Facilities totalling $1.2 billion were repaid using the cash collateral amounts held on deposit with Macquarie Bank.

These facilities were drawn during the construction of CityLink and were certified by the Development Allowance Authority to qualify for concessional tax treatment under Division 16L of the Income Tax Legislation. The maturity of these facilities and the loss of the cash collateral have resulted in a loss of future interest revenue (2007: $110.8 million) and a saving in interest expense (2007: $77.5 million).

**g) Conversion of Convertible Adjusting Rate Securities ("CARS")**

Under the terms of the CARS prospectus, unit holders were eligible to convert their CARS units into Transurban triple stapled securities ("Transurban securities") at any time after the second anniversary of the issue date (14 April 2005). Transurban was also entitled to exchange up to 50 per cent of each Holder's CARS units for Transurban securities at any time on or after the third anniversary of the issue date (14 April 2006). Transurban could also demand Holders to exchange their CARS for Transurban securities on a Reset Date, the first of which was 14 April 2007.

During the year, in accordance with the rights of both CARS holders and Transurban, all remaining CARS units were converted into 65.4 million Transurban securities.

**h) The Transportation Infrastructure Finance and Innovation Act Funding**

The Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA") established a federal credit program under which the US Department of Transportation ("USDOT") may provide Federal credit assistance to major transportation investments of critical or national significance.

On 12 June 2007 USDOT Credit Council approved Transurban's TIFIA application for USD $150.0 million. The funds are to be used to repay USD $95.2 million of Senior Debt, to finance the Richmond Airport Connector (refer item (h) (iii) of Review of Operations) and an upgrade of the electronic tolling system on the Pocahontas Parkway asset.

The TIFIA debt facility is long term funding (35 years) which offers a five year period of capitalised interest and a fixed interest rate representing one basis point above Government Bonds with similar maturity as published by the United States Treasury Bureau of Public Debt's.

**Matters Subsequent to the End of the Financial Year**

**a) Refinance**

Transurban raised AUD 600 million in the bank debt market in August 2007. Funds raised were used to refinance short term bank facilities including the Securitisation Facilities associated with toll roads M1 and M5.

**b) Strategic Investment in the ConnectEast Group**

On 7 August 2007, Transurban announced that it has an economic interest in 6.28 per cent of the ConnectEast Group. The economic interest is held via cash-settled equity swaps (4.36 per cent) and a direct holding (1.92 per cent).

Transurban's total economic interest exceeded 5.0 per cent on 3 August 2007 after an acquisition of ConnectEast securities on market.

The investment is a strategic stake and Transurban has no current intention of making a takeover offer for the ConnectEast Group.

**c) First stage closure of DRIVe**

Transurban DRIVe Holdings LLC is an unlisted co-investment vehicle which will invest in existing and new toll road and similar or related opportunities in North America. On 21 August 2007, Transurban completed the first contractual closure of DRIVe. Transurban's initial interest will be 75 per cent with Capital Partners taking 25 per cent. As a result of this transaction the Pocahontas Parkway will be sold into Transurban DRIVe Holdings LLC for USD $236.0 million.

**d) TIFIA loan for Pocahontas Parkway, USA**

On 20 August 2007, Transurban received USD $97.8 million to allow for the refinance of existing debt. Refer Significant Changes in the State of Affairs (h).

**Likely Developments and Expected Results of Operations**

Likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

**Environmental Regulation**

**CityLink**

CityLink Melbourne Limited is subject to regulation by the Environment Protection Act (1970) administered by the Victorian Environmental Protection Authority ("EPA"). The EPA currently regulates:

- discharges from the tunnel ventilation system and management of in-tunnel air quality;
- management of discharges of treated groundwater to the Yarra River; and
- management of the groundwater recharge system.

TransLink Operations (TLO) holds EPA Waste Discharge Licence EA41502. This specifies limits on the discharge of carbon monoxide, nitrogen dioxide and particulate matter as PM10 and PM2.5 from the tunnel ventilation system and imposes requirements to monitor these emissions. The licence also includes limits on the concentration of carbon monoxide within the tunnel and requires this to be monitored continuously.

This monitoring is undertaken by several specialist organisations under the supervision of the CityLink operator, Translink Operations Pty Ltd. The monitoring organisations are certified by the National Association of Testing Authorities. Monitoring verifies that emission levels are well below the maximum levels specified in the Waste Discharge Licence.

Following discussions with the Environmental Management Committee which includes representatives from CityLink, Translink Operations, EPA Victoria, local councils and community representatives, Translink Operations sought an amendment to the Waste Discharge Licence. Accordingly, on 7 June 2005, EPA Victoria issued an amended Waste Discharge Licence (Licence EA41502) which materially altered the licence conditions. Under the amended licence, CityLink is no longer required to monitor ambient air quality in the vicinity of the tunnel ventilation stacks. Monitoring of emissions within the tunnels and from the ventilation stacks continue unchanged.

In November 2002, Transurban commissioned a Groundwater Reuse Facility that is designed to treat groundwater that flows into the Burnley and Domain Tunnels and re-inject it into the aquifers along the alignment of the tunnels. As part of the management regime for this facility, EPA Victoria issued a Pollution Abatement Notice (PAN) to CityLink Melbourne Limited. This PAN requires groundwater quality to be monitored and reported. To date there have been no groundwater quality issues detected.

CityLink Melbourne Limited also holds a trade waste agreement with City West Water Limited. This agreement regulates the discharge to sewer of backwash water from the filtration system of the Groundwater Reuse Facility.

As TransLink Operations are responsible for the management of all hazardous spills, EPA Victoria also issued a PAN to TransLink Operations in relation to discharge of tunnel water to the Yarra River. This PAN ensures that TLO only discharge treated groundwater from the tunnels to the Yarra River.

In addition to the above environmental regulations, the PS&TR imposes a range of additional environmental requirements on CityLink. These include additional air quality requirements to be met within the tunnels, including oxides of nitrogen and visibility, and noise requirements on the open road system.

**M2 Motorway**

Hills Motorway Limited is subject to environmental regulation in respect to:

- discharge of stormwater runoff from the M2 Motorway into the Lane Cove River; and
- Carbon-Monoxide levels within the M2 tunnels.

Monitoring of these parameters indicates that environmental requirements have been satisfied.

**Westlink M7 Motorway**

Westlink M7 operations are not subject to any special environmental regulation apart from that which would apply to any other road or development of a similar nature except where protection for sensitive areas and specified trees that are endangered sites used by bats for roosting.

**Pocahontas Parkway**

Pocahontas environmental responsibilities with respect to general Operations and Maintenance fall into the following categories:

- Protection of natural resources
- Noise control
- Water quality
- Air quality
- Dust control
- Threatened and endangered species

There are no special environmental issues existing on Pocahontas Parkway except for the existence of several buried pipelines associated with the Dupont Spruance Chemical facility located at the western end of the parkway near the James River. Pocahontas's obligations in relation to these pipelines are:

- to ensure due care is taken when undertaking works and excavations in the vicinity of the pipelines; and
- monitor groundwater in the vicinity of the pipeline to identify any leakage that may arise from the pipeline.

**M1 Motorway**

The Eastern Distributor has been constructed under a licence issued by the Department of Urban Affairs and Planning ("DUAP"). This licence was issued following an environmental impact study of the project, and as part of the terms of the licence, the Minister for Planning and the Environmental Protection Agency ("EPA") stipulated 152 environmental conditions to which Leighton Contractors Pty Limited ("the contractors") must adhere. These conditions range from engineering, public access and amenity to environmental concerns. Breaches of the environmental conditions could result in cessation of the project.

Compliance with these requirements is monitored by a monthly report that the contractor submits to DUAP. This report outlines the compliance with the aforementioned environmental conditions stipulated in the licence. The report is subject to audit by both the consulting engineer Sinclair Knight Merz ("SKM") and the Roads and Traffic Authority of NSW and no significant breaches have been reported.

The licence also requires compliance with the Pollution Control Act with respect to the level of noise and water pollution generated by the construction. This is administered by the NSW EPA. There have been no significant breaches of this Act.

Licences have also been issued under the Clean Waters Act and the Noise Control Act, which relate to the discharging of water from the site and noise generating activities. There have been no significant breaches of these Acts.

Other Acts with which the project is required to comply are:

- Clean Air Act
- NSW Heritage Act
- Waste Minimisation and Management Act

- The Environmental Offences & Penalties Act
- Environmentally Hazardous Chemicals Act

The have been no significant breaches of these Acts.

**M4 Motorway**

The operations of the M4 Motorway and twin Service Centres are required to comply with various Acts including the Protection of the Environment Operations Act, NSW Heritage Act, Waste Minimisation and Management Act, and Environmentally Hazardous Chemicals Act. There have been no significant breaches of these Acts.

**M5 Motorway**

The company's operations are subject to significant environmental regulation under New South Wales laws. The company has a designated officer who monitors compliance with environmental legislation and with its environmental incident response procedures. A regular compliance report is provided to the Board of Directors. The Directors are not aware of any breach of significant environmental regulations by the company during the period covered by this report.

**Information on Directors**

**David J Ryan AO, BBus, FCPA, FAICD.** *Chairman & Independent non-executive director*

***Experience and expertise***

Experience covers commercial banking, investment banking and operational business management in a range of sectors.

***Other current directorships***

Non- executive director of Lend Lease Corporation Limited, ABC Learning Centres Limited and Non-executive Chairman of Tooth & Co Limited.

***Former directorships in last 3 years***

Non-executive director of Virgin Blue Holdings Limited (2003 – 2005)

Non-executive director of Sydney Roads Limited (April – June 2007)

Non-executive director of Sydney Roads Management Limited (April – July 2007)

***Date of initial appointment***

29 April 2003.

***Special responsibilities***

Chairman of Board, Chairman of Nomination Committee and Member of Audit Committee.

**Kimberley Edwards BE, MAdmin (Bus), FIE (Aust), MAICD.** *Managing Director*

***Experience and expertise***

Held senior management positions on major commercial and infrastructure projects in Australia, the United Kingdom and the Middle East. Joined Transurban when it was originally bidding for the CityLink project and recently led the development of the Transurban Group into other toll road opportunities and the deployment of its electronic tolling technology in Australia and overseas.

***Other current directorships***

None

***Former directorships in last 3 years***

Executive Director of Hills Motorway Ltd (April – August 2005)
Executive Director of Sydney Roads Limited (April – June 2007)
Executive Director of Sydney Roads Management Limited (April – July 2007)

***Date of initial appointment***

29 October 1996

***Special responsibilities***

Managing Director

**Geoffrey O Cosgriff BAppSc, Company Director Diploma. FIE(Aust), FAICD.** *Independent non-executive director*

***Experience and expertise***

Formerly held executive management roles with Melbourne and Metropolitan Board of Works and has had extensive experience in the information technology industry, including the founding Managing Director of MITS Limited. MITS grew to 600 staff and nearly $100 million in sales of information technology solutions from its formation until December 2000 when it was acquired by Logica Pty Limited. He is currently a Director of LogicaCMG Pty Limited and UXC Limited which have significant international and local activities in information technology solutions and services as well as a Council Member for Leadership Victoria.

***Other current directorships***

Non-executive director of UXC Limited

Non-executive director LogicalCMG Pty Limited

***Former directorships in last 3 years***

None.

***Date of initial appointment***

19 December 2000

***Special responsibilities***

Chairman of Remuneration Committee and Member of Risk Committee and Nomination Committee.

**Jeremy G A Davis BEc, MBA, MA, FAICD.** *Independent non-executive director*

***Experience and expertise***

Professor Davis is a Professor Emeritus of the University of New South Wales after retiring from the Australian Graduate School of Management in January 2006. He spent 10 years as a management consultant with the Boston Consulting Group and is a former Director of the Australian Stock Exchange Limited. He is currently a director of Singapore Power Limited.

***Other current directorships***

Non-executive director of SP AusNet

***Former directorships in last 3 years***

None

***Date of initial appointment***

16 December 1997

***Special responsibilities***

Chairman of Audit Committee, Member of Nomination Committee and Remuneration Committee.

**Susan M Oliver B.Prop.& Const, FAICD.** *Independent non-executive director*

***Experience and expertise***

Former Senior Manager of Andersen Consulting and former Managing Director of the Australian Commission for the Future Limited. Experience covers private and public sector senior management roles, strategic and technology consulting and business development. She is currently a non-executive director and Chairperson of the remuneration committee of MBF Australia Limited; and executive director and owner of wwite Pty Limited.

***Other current directorships***

Non-executive director of Programmed Maintenance Services Limited

Non-executive director of Just Group Limited

Non-executive director MBF Australia Limited

***Former directorships in last 3 years***

None

***Date of initial appointment***

25 June 1996

***Special responsibilities***

Chairperson of Risk Committee, Member of Corporate and Social Responsibility Committee and Nomination Committee.

**Christopher J S Renwick AM, BA, LLB, FAIM, FAIE, FTSE.** *Independent non-executive director*

***Experience and expertise***

Over 35 year's experience covering mining, operational business management and law.

***Other current directorships***

Non-executive Chairman of Coal & Allied Industries Limited, non-executive director of Downer - EDI Limited and Sims Group Limited.

***Former directorships in last 3 years***

None

***Date of initial appointment***

26 July 2005

***Special responsibilities***

Chairman of Corporate and Social Responsibility Committee, Member of Risk Committee and Nomination Committee.

**James Keyes M.A (Hons)** *Independent non-executive director*

***Experience and expertise***

Partner and the Local Team Leader of the Funds and Investment Services Team at Appleby Hunter Bailhache (Legal firm within Bermuda). Practised as a lawyer for over 15 years and specialises in the area of mutual funds, corporate finance and securities.

***Other current directorships***

None

***Former directorships in last 3 years***

None

***Date of initial appointment***

18 September 2006

***Special responsibilities***

None

**Jennifer Eve BA, LLB (Hons) LLM** *Independent non-executive director*

***Experience and expertise***

Associate and member of the Funds and Investment Services Team at Appleby Hunter Bailhache (Legal firm within Bermuda). Practices in the area of company and commercial law, specialising in the formation and administration of corporate vehicles.

***Other current directorships***

None

***Former directorships in last 3 years***

None

***Date of initial appointment***

18 September 2006

***Special responsibilities***

None

**Company Secretary**

**Mark Licciardo BBus (Acc), GradDip CSP, ASA, FCIS**

Mr Licciardo held the position of Company Secretary from January 2005 until his resignation on 17 August 2007. Before joining Transurban he held the position of company secretary with a group of listed investment companies, the major one being Australian Foundation Investment Company Limited. Prior to that he held various finance roles with investment companies and major banks.

**Paul O'Shea B.Ec, LLB, FCIS**

Mr O'Shea is General Counsel and Group General Manager, Legal and Risk Management. He was originally appointed General Counsel in March 1996. He has responsibility for legal advice, the Group's risk management strategy and direction, insurance and Independent Customer Resolutions (ICR). Before joining Transurban he held a senior legal role at Transfield for 18 months during the bid for CityLink.

**Meetings of directors**

The number of meetings of the board of directors of Transurban Holdings Limited, Transurban International Limited and Transurban Infrastructure Management Limited held during the year ended 30 June 2007, and the numbers of meetings attended by each director is listed below. The number of meetings of the board of directors of Transurban Limited held during the period Transurban Limited was part of the triple staple, and the number of meetings attended by each director is listed below.

| Name | Board of Directors Transurban Holdings Limited | | Board of Directors Transurban Infrastructure Management Limited | | Board of Directors Transurban International Limited | | Board of Directors Transurban Limited | |
|---|---|---|---|---|---|---|---|---|
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| D J Ryan AO | 18 | 18 | 18 | 18 | 2 | 2 | 8 | 8 |
| L G Cox AO [(1)] | 5 | 5 | 5 | 5 | - | - | 5 | 5 |
| P C Byers [(2)] | - | 4 | - | 4 | x | x | - | 4 |
| G O Cosgriff | 18 | 18 | 18 | 18 | x | x | 8 | 8 |
| J G A Davis | 18 | 18 | 18 | 18 | x | x | 8 | 8 |
| S M Oliver | 16 | 18 | 16 | 18 | x | x | 6 | 8 |
| C J S Renwick AM | 15 | 18 | 15 | 18 | x | x | 8 | 8 |
| K Edwards | 18 | 18 | 18 | 18 | 2 | 2 | 8 | 8 |
| J Keyes | x | x | x | x | 2 | 2 | x | x |
| J Eve | x | x | x | x | 2 | 2 | x | x |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

X = Not a member of the relevant board of directors

(1) Mr Cox resigned effective from 28 February 2007

(2) The Board granted Mr Byers leave for an indefinite period on 20 April 2006 until his retirement on 23 October 2006

The number of meetings of each board committee of Transurban Holdings Limited, Transurban Infrastructure Management Limited, Transurban International Limited (from 3 January 2007, the day TIL joined the triple staple) and Transurban Limited (until 3 January 2007, the day TL left the triple staple) held during the year ended 30 June 2007, and the numbers of meetings attended by each director are set out in the following table. All meetings were held jointly.

| Name | Audit Committee | | Nomination & Remuneration Committee | | Risk Committee | | Corporate & Social Responsibility Committee | | Sub Committee (Acquisition) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| D J Ryan AO[1] | 4 | 4 | 2 | x | 4 | 4 | x | x | 8 | 8 |
| L G Cox AO [2] | 3 | 3 | 5 | 5 | x | x | 2 | x | x | x |
| P C Byers [3] | - | 1 | x | x | x | x | x | x | - | 4 |
| G O Cosgriff [6] | 1 | x | 8 | 8 | 4 | 4 | x | x | 7 | 7 |
| J G A Davis | 3 | 4 | 8 | 8 | x | x | x | x | 7 | 7 |
| S M Oliver [1] [5] | 4 | x | 1 | x | 4 | 4 | 3 | 3 | 5 | 7 |
| C J S Renwick AM [1] [6] | 2 | x | 1 | x | 4 | 4 | 3 | 3 | 7 | 7 |
| K Edwards [4] | 3 | x | 8 | x | x | x | x | x | 8 | 8 |
| J Keyes | x | x | x | x | x | x | x | x | x | x |
| J Eve | x | x | x | x | x | x | x | x | x | x |

On 1 July 2007, the Nomination and Remuneration Committee divided into two separate committees, being the Nomination Committee and the Remuneration Committee

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
X = Not a member of the relevant committee

(1) Mr Ryan, Ms Oliver and Mr Renwick are not members of the Nomination and Remuneration Committee but attended meetings during the year.

(2) Mr Cox was not a member of the CSR Committee but attended meetings during the year. Mr Cox resigned effective from 28 February 2007

(3) The Board granted leave to Mr Byers for an indefinite period on 20 April 2006 until his retirement on 23 October 2006

(4) Mr Edwards was excluded from discussions involving his remuneration during meetings of the Nomination and Remuneration Committee he attended.

(5) Ms Oliver is not a member of the Audit Committee but attended 4 of these meetings in her capacity as chair of the Risk Committee.

(6) Mr Cosgriff and Mr Renwick are not members of the Audit Committee but each attended meetings during the year.

### Directors' Interests

The directors of the Group have disclosed relevant interests in Stapled Securities and options over Stapled Securities as follows:

| Name | Number of Stapled Securities | Stapled Securities issued via Executive Loan Plan |
|---|---:|---:|
| D J Ryan AO | 24,091 | - |
| G O Cosgriff | 48,611 | - |
| J G A Davis | 55,592 | - |
| S M Oliver | 41,831 | - |
| C J S Renwick AM | 21,552 | - |
| K Edwards | 1,311,000 | 722,500 |
| J Keyes | - | - |
| J Eve | - | - |

### Remuneration Report

The remuneration report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration

B. Details of remuneration

C. Service agreements

D. Share-based compensation

E. Additional information

The information provided under the headings A-D includes remuneration disclosures that are required under Accounting Standards AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

### A. Principles used to determine the nature and amount of remuneration (audited)

*Non-Executive Directors*

The remuneration of non-executive directors consists of director's fees and committee fees. Non-executive directors are not currently provided with any form of equity-based compensation.

The constitutions of the entities comprising the Transurban Group ("the Group") provide that the total remuneration paid in a year to non-executive directors may not exceed $1.9 million in total for the Group.

Subject to this limit, remuneration structure and amounts for non-executive directors are recommended by the Remuneration Committee of the Board with assistance from external remuneration consultants. Liability for the Superannuation Guarantee Contribution is met from gross remuneration. The current fee arrangements were last reviewed with effect from 1 October 2006.

In September 2005, the Board resolved to discontinue previously provided retirement benefits for all participating non-executive directors with effect from 30 September 2005 such that future directors were not entitled to this benefit. The value of benefits accrued up to this date attracts interest at the statutory Fringe Benefits rate (currently 7.05 per cent). The accrued `frozen' retirement benefits plus interest will be paid to directors upon their retirement.

*Executive Directors and Executives*

The key objectives of the Group's policy for executive remuneration are:

- To secure employees with the skills and experience necessary to meet business objectives;
- To motivate employees to the highest levels of performance; and
- To align employee incentives with increased security holder value.

The policy seeks to support the Group's objective to be perceived as "an employer of choice" by:

- Offering remuneration levels which are attractive relative to those offered by comparable employers; and
- Providing strong, transparent linkages between individual and group performance and rewards.

In consultation with external remuneration consultants, the Group has structured its executive remuneration to reward both longer term growth and the achievement of short term performance targets.

Executives are remunerated through a combination of base salary and benefits, short-term incentives ("STI") in the form of cash bonuses and long-term incentives ("LTI").

The proportion of each component of an executive's total remuneration is established by reference to remuneration survey data for comparable companies. As executives progress in seniority, the proportion of remuneration which is dependent on the performance of the entity increases.

The incentive component of executive remuneration is determined by:

- financial performance relative to short-term profitability targets
- business achievements through the achievement of Group key result areas ("KRAs")
- project successes
- total security holder return relative to other companies in the ASX Industrials index and
- individual performance as measured by the achievement of key performance indicators ("KPIs") and the upholding of Group values

The remuneration of the Managing Director is established by the Board, based on the recommendation of the Remuneration Committee. The remuneration of senior executives reporting to the Managing Director is established by the Remuneration Committee, based on the recommendation of the Managing Director.

The components of executive remuneration are described below:

*Base Pay*

Base pay represents the fixed component of executive remuneration and is structured as a Total Employment Cost ("TEC"). TEC consists of a mix of cash, superannuation and prescribed benefits. An executive's TEC is reviewed annually against market rates for comparable roles. There are no guaranteed base pay increases fixed in any executive's contract of employment.

*Benefits*

Executives receive benefits including death and disability insurance, salary continuance insurance and car parking.

*Short-term Incentives*

On an annual basis, the Group makes available Short-term Incentive ("STI") payments to executives for the achievement of Group and individual performance via KPIs. A target STI amount, expressed as a percentage of the executive's TEC, is specified for each executive and is subject to further adjustment for:

- The extent to which the Group has met its key result areas ("KRAs");
- The extent to which profit-related financial and non-financial performance targets are achieved; and
- The extent to which the executive has achieved his/her individual KPIs.

Such adjustments can result in the actual STI payment received by the executive being above or below the targeted STI amounts. STI payments are made annually in August following annual performance reviews.

Each year, key result areas, including a financial performance target are established by the Board, based on recommendations made by the Managing Director. The KPIs for the Managing Director are established by the Board based on recommendations made by the Remuneration Committee. KPIs for executives reporting to the Managing Director are established by the Managing Director.

The Remuneration Committee is also responsible for assessing the extent to which KRAs and the KPIs set for senior executives have been achieved. To assist in making these assessments, the Committee receives reports from the Chief Finance Officer and the Managing Director.

To ensure that incentives remain relevant, the Board reviews the financial and non-financial targets on an annual basis.

*Long Term Incentives*

On an annual basis, the Group makes available Long Term Incentive ("LTI") allocations to executives. Two forms of long-term incentives ("LTI") were in operation during the reporting period. The Executive Long Term Incentive Plan ("ELTIP") provided cash rewards linked to equity performance over a two year vesting period and the Executive Loan Plan ("ELP") which is linked to improvements in the price of stapled securities over a three year period. Both plans utilise Total Security holder Return as the basis for determining payment.

Following announcement of changes in the May 2006 Federal Budget to extend the employee share scheme and related capital gains tax provisions to stapled securities that include an ordinary share and are listed on the Australian Stock Exchange, a review of the company's share plans was undertaken. As a result, a new Performance Rights Plan (PRP) was adopted by the Board for implementation in November 2007.

The new PRP will utilise two performance measures, one linked to Total Security holder Return over a three year vesting period and the second, an operational performance measure of the business over the same period. The Plan has been structured so that rewards are only obtained if there are materially improved security holder returns and operational performance results over the three year period.

Executives participating in the PRP are provided with a right to acquire, at no cost to them, an allocated number of stapled securities, subject to the achievement of performance conditions at the time of vesting. Executives based outside Australia are eligible to participate in a cash based plan similarly structured to the PRP.

*Employee Security Ownership Plan*

Executives may elect to participate in the Employee Security Ownership Plan on the same basis as that offered to permanent employees.

*Business Generation Incentive Plan*

The Group also operates a Business Generation Incentive Plan ("BGIP") in which executives may participate, depending upon their level of involvement in generating new business. The BGIP provides for cash bonuses to be paid from a bonus pool determined by the risk adjusted net present value of a project or business venture.

The BGIP is intended to reward executives for successful business generation activities, based on the increase in security holder value derived from new business. BGIP payments are determined and awarded by the Board, on the recommendation of the Remuneration Committee and Managing Director.

Key Characteristics of Transurban's Business Generation Incentive Plan ("BGIP") Rewards are:

- based on success, not effort;
- based on the added value of new business;
- determined by a risk adjusted market value analysis; and
- distributed based on contribution.

**B. Details of remuneration (audited)**

Transurban Holdings Limited does not employ any executive key management personnel or executive directors. All related remuneration disclosures refer to other Group entities and have not been apportioned between the Group entities as a relevant basis of apportionment is not available.

Non-executive remuneration reported as "Transurban Holdings Limited" represents the parent's share of remuneration with the remainder divided between Transurban Holding Trust, Transurban Limited and Transurban International Limited.

Share-based disclosures relate to the Transurban Stapled Group. The full amounts have been disclosed within the parent disclosures as a reasonable basis of apportionment is not available.

Details of the remuneration of the directors, key management personnel and each of the 5 highest paid executives of Transurban Holdings Limited and the Transurban Holdings Group are set out in the following tables.

The 5 highest paid executives who are not directors of the Group are:

- C Brant – Chief Finance Officer
- B Bourke – Group General Manager Operations
- P O'Shea – Group General Manager Legal and Risk Management
- K Daley – Senior Vice President International Development
- M Kulper – Senior Vice President North America

The key management personnel of the Group are the directors of the Transurban Group (see page 2 above) and those executives that report directly to the managing director. The executives are:

- C Brant – Chief Finance Officer
- B Bourke – Group General Manager Operations

- P O'Shea – Group General Manager Legal and Risk Management
- G Mann – Group General Manager Development

All of the above persons were also key management persons during the year ended 30 June 2006.

***Key management personnel of Transurban Holdings Limited***

| **2007** | **Short-term benefits** | | | **Post-employment benefits** | | **Share-based payments** | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Cash salary and fees** | **Cash Bonus** | **Non-monetary benefits** | **Super-annuation** | **Retirement benefits[a]** | **Options[b]** | **Executive Loan Plan [c]** | **Long term Incentive Plan [d]** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| *Non-executive directors* | | | | | | | | | |
| D J Ryan AO | 78,397 | - | - | 7,056 | - | - | - | - | 85,453 |
| L G Cox AO [1] | 76,692 | - | - | 26,278 | 15,363 | - | - | - | 118,333 |
| P C Byers [2] | 15,297 | - | - | 1,377 | 3,279 | - | - | - | 19,953 |
| G O Cosgriff | 60,232 | - | - | 5,421 | 5,148 | - | - | - | 70,801 |
| J G A Davis | 34,806 | - | - | 35,000 | 8,576 | - | - | - | 78,382 |
| S M Oliver | 66,924 | - | - | 6,023 | 9,852 | - | - | - | 82,799 |
| CJS Renwick AM | 21,837 | - | - | 43,797 | - | - | - | - | 65,634 |
| *Executive directors* | | | | | | | | | |
| K Edwards<br>*Managing Director* | - | - | - | - | - | - | 264,409 | 376,710 | 641,119 |
| *Other key management personnel* | | | | | | | | | |
| C Brant | - | - | - | - | - | - | 105,941 | 80,051 | 185,992 |
| B Bourke | - | - | - | - | - | - | 94,214 | 75,342 | 169,556 |
| P O'Shea | - | - | - | - | - | - | 73,008 | 56,506 | 129,514 |
| G Mann | - | - | - | - | - | - | 98,935 | - | 98,935 |
| *5 executives receiving the highest remuneration – not already mentioned above* | | | | | | | | | |
| K Daley | - | - | - | - | - | - | 102,046 | 56,506 | 158,552 |
| M Kulper | - | - | - | - | - | - | 114,379 | - | 114,379 |
| Total | 354,185 | - | - | 124,952 | 42,218 | - | 852,932 | 645,115 | 2,019,402 |

***Key management personnel of the Group***

| 2007 | Short-term benefits | | | Post-employment benefits | | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees | Cash Bonus | Non-monetary benefits | Super-annuation | Retirement benefits[a] | Options[b] | Executive Loan Plan [c] | Long term Incentive Plan [d] | Total |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| *Non-executive directors* | | | | | | | | | |
| D J Ryan AO | 235,191 | - | - | 21,167 | - | - | - | - | 256,358 |
| L G Cox AO[1] | 204,511 | - | - | 70,075 | 40,969 | - | - | - | 315.555 |
| P C Byers [2] | 45,891 | - | - | 4,130 | 9,838 | - | - | - | 59,859 |
| G O Cosgriff | 144,557 | - | - | 13,010 | 12,355 | - | - | - | 169,922 |
| J G A Davis | 83,535 | - | - | 84,000 | 20,582 | - | - | - | 188,117 |
| S M Oliver | 160,618 | - | - | 14,455 | 23,646 | - | - | - | 198,719 |
| CJ S Renwick AM | 52,409 | - | - | 105,113 | - | - | - | - | 157,522 |
| J M Keyes | 9,249 | - | - | - | - | - | - | - | 9,249 |
| J Eve | 9,249 | - | - | - | - | - | - | - | 9,249 |
| *Executive directors* | | | | | | | | | |
| K Edwards<br>*Managing Director* | 1,495,520 | 1,600,000 | 8,330 | 105,113 | - | - | 264,409 | 376,710 | 3,850,082 |
| *Other key management personnel* | | | | | | | | | |
| C Brant | 561,683 | 550,000 | 8,330 | 49,641 | - | - | 105,941 | 80,051 | 1,355,646 |
| B Bourke | 515,792 | 500,000 | 8,330 | 45,510 | - | - | 94,214 | 75,342 | 1,239,188 |
| P O'Shea | 325,454 | 450,000 | 8,330 | 105,124 | - | - | 73,008 | 56,506 | 1,018,422 |
| G Mann | 465,415 | 250,000 | 8,330 | 85,000 | - | - | 98,935 | - | 907,680 |
| *5 executives receiving the highest remuneration – not already mentioned above* | | | | | | | | | |
| K Daley | 343,343 | 350,000 | - | 105,113 | - | - | 102,046 | 56,506 | 957,008 |
| M Kulper | 425,000 | 350,000 | - | 55,519 | - | - | 114,379 | - | 944,898 |
| Total | 5,077,417 | 4,050,000 | 41,650 | 862,970 | 107,390 | - | 852,932 | 645,115 | 11,637,474 |

(1) L G Cox was chairman and a non-executive director from the beginning of the period until his resignation on 28 February 2007. Mr Cox was paid a retirement benefit of $0.9 million.

(2) P C Byers was a non-executive director from the beginning of the period until his retirement on 23 October 2006. Mr Byers was paid a retirement benefit of $0.3 million.

***Key management personnel of the Group***

| 2006 | Short-term benefits | | | Post-employment benefits | | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Cash salary and fees** | **Cash Bonus** | **Non-monetary benefits** | **Super-annuation** | **Retirement benefits[a]** | **Options[b]** | **Executive Loan Plan [c]** | **Long term Incentive Plan [d]** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| *Non-executive directors* | | | | | | | | | |
| D J Ryan AO | 145,114 | - | - | 13,060 | - | - | - | - | 158,174 |
| L G Cox AO | 362,614 | - | - | 12,139 | 66,526 | - | - | - | 441,279 |
| P C Byers | 144,412 | - | - | 12,997 | 25,562 | - | - | - | 182,971 |
| G O Cosgriff | 121,611 | - | - | 17,948 | 19,364 | - | - | - | 158,923 |
| J G A Davis | 84,994 | - | - | 59,500 | 26,061 | - | - | - | 170,555 |
| S M Oliver | 136,755 | - | - | 12,308 | 25,717 | - | - | - | 174,780 |
| C J S Renwick AM | 41,591 | - | - | 100,587 | - | - | - | - | 142,178 |
| *Executive directors* | | | | | | | | | |
| K Edwards *Managing Director* | 1,400,006 | 1,100,000 | 7,900 | 100,587 | - | 57,972 | 93,151 | 512,111 | 3,271,727 |
| G R Phillips [e] *Deputy Managing Director* | 174,592 | - | 658 | 861,261 | - | 19,324 | - | - | 1,055,835 |
| *Other key management personnel* | | | | | | | | | |
| C Brant | 515,872 | 465,000 | 7,900 | 45,460 | - | - | 35,174 | 36,030 | 1,105,436 |
| B Bourke | 445,682 | 442,500 | 7,900 | 41,303 | - | - | 30,405 | 98,389 | 1,066,179 |
| P O'Shea | 351,333 | 464,000 | 7,900 | 31,399 | - | - | 22,356 | 77,822 | 954,810 |
| G Mann | 386,148 | 120,000 | 13,400 | 12,139 | - | - | 33,534 | - | 565,221 |
| *5 executives receiving the highest remuneration – not already mentioned above* | | | | | | | | | |
| M Kulper | 222,095 | 1,599,134 | - | 31,964 | - | - | - | 27,821 | 1,881,014 |
| K Daley | 340,992 | 904,100 | - | 28,748 | - | - | - | 116,816 | 1,390,656 |
| Total | 4,873,811 | 5,094,734 | 45,658 | 1,381,400 | 163,230 | 77,296 | 214,620 | 868,989 | 12,719,738 |

(a) Retirement benefits were frozen for all participating non-executive directors at their current levels up to 30 September 2005. Interest accrues on directors entitlement balances at 7.05 per cent per annum.

(b) No options were granted during the year over Transurban Group Stapled Securities. Option remuneration in year 2006 relates to options granted to Executive Directors and Executives in prior financial years. The amounts disclosed as remuneration is that part of the value of the options which is attributable to the current year portion of the vesting period.

(c) The amounts disclosed as remuneration is that part of the value of the Executive Loan Plan benefit which is attributable to the current year portion of the vesting period.

(d) The amount shown as Long Term Incentive is that part of the units issued under the cash based ELTIP which is attributable to the current year portion of the vesting period for each current allocation.

(e) G R Phillips was an executive director from the beginning of the prior year until his resignation on 26 July 2005.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| **Directors of the Group** | | | | | | |
| K Edwards | **43%** | 52% | **43%** | 38% | **14%** | 10% |
| **Other key management personnel of the Group** | | | | | | |
| C Brant | **43%** | 49% | **40%** | 41% | **17%** | 10% |
| B Bourke | **43%** | 47% | **39%** | 43% | **18%** | 10% |
| P O'Shea | **40%** | 41% | **43%** | 50% | **17%** | 9% |
| G Mann | **54%** | 69% | **25%** | 16% | **21%** | 15% |

### C. Service agreements (audited)

Remuneration for the Managing Director and the key management personnel are formalised in service agreements. Each of these agreements provides for access to performance-related cash bonuses and other benefits including death and disability insurance, salary continuance insurance and car parking. Although not specified in agreements, executives are eligible to participate in executive long term incentive plans (or equivalent cash plans for those executives located outside Australia) and the Business Generation Incentive Plan. Other major provisions of the agreements, relating to remuneration, are set out below:

*Executive Directors*

K Edwards, *Managing Director*

- Fixed remuneration including base salary and superannuation, for the year ending 30 June 2008 of $1,900,000 to be reviewed annually by the Remuneration Committee and the Board;
- A Short Term Incentive Payment of $1,600,000 being 100 per cent of his total employment cost for the year ending 30 June 2007.

- A Long Term Incentive allocation for financial year 2008 under the terms and conditions of the new Performance Rights Plan (described in Section D) equal to $1,000,000 (or approximately 50 per cent of TEC) to be offered 1 November 2007 with Stapled Securities to be acquired on market.
- The Managing Director's allocation will be derived by using an option valuation methodology such as the Black Scholes with Monte Carlo simulations or other similar method of calculation. By dividing the Managing Director's remuneration value by this adjusted valuation, the number of Stapled Securities will be derived. For example, if the valuation at 1 November 2007 is $3.50, the Managing Director's allocation of $1,000,000 will be divided by this valuation to provide him with a total of 285,715 performance rights.
- Term of Agreement – permanent, subject to 6 months' notice of termination;
- The payment of 1.3 times of fixed remuneration upon termination

*Key Management Personnel and other executives*

The major provisions contained in the service agreements of key management personnel and other executives are the same for all persons except for the base salary component and include the following provisions:

- Term of agreement – permanent, subject to termination on 6 months' notice; and
- Total Employment Cost ("TEC") reviewed annually by the Remuneration Committee and approved by the Board.

**D. Share-based compensation (audited)**

***Options***

The Executive Option Plan was offered in years 2001 and 2002. Options were issued at no cost to the Option holder and vested in three equal tranches on the second, third and fourth anniversaries of their issue. The Exercise of the options was subject to an Exercise Condition. The Exercise Condition involved a comparison between Total Security holder Return ("TSR") of The Transurban Group's Stapled Securities over the two years prior to a vesting date of options and the TSR of each of the other companies in the S&P/ASX 200 Industrials as at the end of the relevant Exercise Condition Test Period which had been in the S&P/ASX 200 Industrials for the full term of the Exercise Condition Test Period ("Test Companies") measured over the same period.

TSR measures the total return on investment of a security. It takes into account both capital appreciation and distribution income. The Transurban Group and each of the Test Companies were ranked according to their respective TSRs over the Exercise Condition Test Period. The ranking determined the extent to which vested options could be exercised. If the Group's TSR exceeded the 65th percentile of the ranking, 100 per cent of the vested options were exercisable. If Transurban Group's TSR was below the 25th percentile of the ranking, none of the vested options were exercisable. If the TSR fell between these percentiles, the percentage of vested options that were exercisable were calculated according to a formula.

The exercise price of options was the volume weighted average price at which the Group's stapled securities were traded on the Australian Stock Exchange during the 5 business days immediately prior to granting the options. When exercised, each option was converted into one stapled security. Options were exercisable at any time after vesting.

Fair values at grant date were independently determined, using a Black-Scholes derived option valuation model taking into consideration the exercise price, the term of the option, the market price of Transurban Group stapled securities on the grant date, the expected price volatility of Transurban Group stapled securities, expected future distributions and the risk free rate of interest over the term of the options.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

| Grant date | Expiry date | Exercise price | Value per option at grant date | Date exercisable |
|---|---|---|---|---|
| 26 April 2001 | 30 April 2006 | $3.817 | $0.425 | One-third after 28/04/03, 26/04/04, 26/04/05 |
| 23 October 2001 | 31 October 2006 | $4.404 | $0.491 | One-third after 28/04/03, 26/04/04, 26/04/05 |
| 1 February 2002 | 30 April 2007 | $4.280 | $0.477 | One-third after 01/02/04, 01/02/05, 01/02/06 |
| 9 April 2002 | 30 April 2007 | $4.030 | $0.449 | One-third after 20/05/04, 20/05/05, 20/05/06 |
| 20 May 2002 | 30 April 2007 | $4.220 | $0.470 | One-third after 20/05/04, 20/05/05, 20/05/06 |

No options were granted or vested during the years ended 30 June 2007 and 30 June 2006.

*Stapled securities provided on exercise of remuneration options*

Details of stapled securities provided as a result of the exercise of remuneration options to each director of the Transurban Group and other key management personnel of the Group are set out below.

| **Name** | **Number of stapled securities issued on exercise of options during the year** | |
|---|---|---|
| | **2007** | 2006 |
| **Directors of the Group** | | |
| K Edwards | - | 1,500,000 |
| **Other key management personnel of the Group** | | |
| C Brant | - | - |
| B Bourke | - | - |
| P O'Shea | - | - |
| G Mann | - | - |

No stapled securities were issued during the year. All options under this plan have now expired.

***Executive long term incentive plan***

The executive long term incentive plan ("ELTIP") was offered in years 2004 and 2005.

Under the ELTIP, participants were allocated "ELTI units". Each ELTI unit entitled the holder to a cash payment on the maturity date, approximately two years after the date of allocation. The cash payment per unit was equal to the increase in the Stapled Security price over the period between the date of allocation and the maturity date. The proportion of ELTI units which vest with the executive at maturity is dependent on the Transurban Group's ranking in the Total Shareholder Returns ("TSRs") of the companies within the S&P/ASX 200 Industrials over the two years prior to maturity. If Transurban's TSR ranking is below the 40th percentile, no payment is made. For TSR rankings between the 40th and 70th percentiles, the proportion increases linearly from 25 per cent to 100 per cent. If Transurban's TSR ranking is above the 70th percentile, the proportion is 100 per cent.

The terms and conditions of each grant of long term incentive plan units affecting remuneration in this reporting period are as follows:

| Grant date | Expiry date | Grant price | Value per unit at grant date | Value per unit at reporting date | Date Paid |
|---|---|---|---|---|---|
| 30 Sept 2004 | 30 Sept 2006 | $5.45 | $0.54 | $1.79 | 30 Nov 2006 |

Details of ELTIs paid to each director of the Transurban Group and other key management personnel of the Group are set out below. No ELTIs were issued in the years ended 30 June 2007 and 30 June 2006.

| Name | Number of ELTIs paid during the year | | $ Value of ELTIs paid during the year | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Directors Transurban Holdings Limited** | | | | |
| K Edwards | 800,000 | 850,000 | **1,083,019** | 2,558,500 |
| **Other key management personnel of the Group** | | | | |
| C Brant | 170,000 | - | **230,142** | - |
| B Bourke | 160,000 | 160,000 | **216,604** | 481,600 |
| P O'Shea | 120,000 | 130,000 | **162,453** | 391,300 |
| G Mann | - | - | **-** | - |

***Executive Loan Plan ("ELP")***

The Executive Loan plan ("ELP") offered in years 2006 and 2007, was introduced as it offered payoff characteristics similar to those of an option-based plan and thus rewarded TSR out performance. The ELP is structured as a performance loan plan which is linked to improvements in the price of stapled securities over a three year period. The Plan has been structured so that rewards are only obtained if there are materially improved security holder returns.

Executives participating in the ELP are provided with an interest free loan to assist them to acquire stapled securities at market price. The term of the loan is three years and there is only one testing date. The Stapled Securities are held by the executive but will only vest in the executive in accordance with the terms of the Plan. Expiry occurs 3 years plus 60 days from the date of commencement of the Plan, unless the rules of the Plan otherwise provide. Holding locks are applied to the Stapled Securities to ensure that they can only be dealt with in accordance with the terms of the Plan. The acquired shares cannot be transferred or sold while the loan is outstanding.

Stapled securities vest in the executive if:

(a) the executive is employed by the Transurban Group for at least 3 years from the date of commencement of the Plan, unless the rules of the Plan otherwise provide; and

(b) the performance hurdle relevant to the offer is met.

If the Stapled Securities vest in the executive:

(a) then the executive can either pay the amount of the loan which needs to be repaid and which is attributable to those vested Stapled Securities, in which case they will be free to deal with those Stapled Securities as they see fit; or

(b) The Group will otherwise sell the vested securities and apply for the proceeds of sale in discharge of the amount of the loan which is repayable attributable to those Stapled Securities, with any surplus to be provided to the executive.

Any unvested Stapled Securities will also be sold by the Group and the proceeds will be applied in reduction of the repayable amount of the loan attributable to those unvested securities, with the executive having no entitlement to the surplus.

The Plan was designed so that the executive does not need to provide any money to purchase securities in the Transurban Group and is not himself or herself directly responsible for repayment of any loan provided. The proceeds of sale of stapled securities are, unless the rules of the Plan provide otherwise, applied to discharge the repayable portion of any loan.

If an executive leaves the employ of the Transurban Group those unvested securities will lapse and will be sold with the proceeds being applied in repayment of the repayable portion of the loan.

All dividends and distributions payable in respect of the stapled securities subject of the Plan, net of deductions for tax, are applied in reduction of the outstanding loan balance.

The performance hurdle involves a comparison of Total Shareholder Returns (TSR). The TSR of Transurban's listed stapled securities is compared with the TSR of each other company (Test Company) in the S&P / ASX 100 Industrials (or similar or replacement index) for the whole period of comparison. The period of comparison (Performance Hurdle Test Period) is the three years post the offer date of the Plan.

Transurban and each of the Test Companies will be ranked according to their respective TSRs over the Performance Hurdle Test Period.

This ranking determines the extent to which stapled securities will vest.

- If Transurban's TSR is ranked at or above the 75th percentile, 100 per cent of the stapled securities will vest.
- If Transurban's TSR is ranked above the 50th percentile but below the 75th percentile, the percentage of stapled securities ("P") that will vest will be that calculated according to the following formula:
- P = 50 + 2 x (RTransurban – 50)
- Where: RTransurban = The percentile rank of Transurban's TSR.
- If Transurban's TSR is ranked at or below the 50th percentile, none of the stapled securities will vest.

*The allocation of ELP units was determined by the following:*

A remuneration value is determined for each participant relative to their total employment cost. These values are referenced to external market benchmarks.

(i) The number of stapled securities an executive is entitled to is derived by using an option valuation methodology such as the Black Scholes with Monte Carlo simulations or other similar method of calculation. These valuation methods take into account the fact that the loan will need to be repaid along with performance and other conditions. By dividing the remuneration value or number by this adjusted valuation, the number of stapled securities is derived;

(ii) the stapled securities are acquired and transferred to each participant;

(iii) the purchase price per stapled security is the average market price of stapled securities weighted by reference to volume over the week leading up to and including the date of commencement of the Plan; and

(iv) the amount of the loan provided to a participant is equal to the purchase price per stapled security multiplied by the participant's stapled securities entitlement.

Details of securities provided to each director of Transurban Holdings Limited and other key management personnel of the Group are set out below.

| **Name** | **Number of securities granted** | | **Number of securities vested** | | **Number of securities exercised** | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| **Directors Transurban Limited** | | | | | | |
| K Edwards | **410,000** | 312,500 | **-** | - | **-** | - |
| **Other key management personnel of the Group** | | | | | | |
| C Brant | **175,000** | 118,000 | **-** | - | **-** | - |
| B Bourke | **160,000** | 102,000 | **-** | - | **-** | - |
| P O'Shea | **130,000** | 75,000 | **-** | - | **-** | - |
| G Mann | **160,000** | 112,500 | **-** | - | **-** | - |

*Executive Loan Plan for Executives Located Overseas*

An Executive Long Term Incentive Cash Plan mirroring that of the Executive Loan Plan is used for participants outside Australia.

The terms and conditions of each grant of units affecting remuneration in this or future reporting periods are as follows:

| **Grant date** | **Expiry date** | **Grant price** | **Value per unit at grant date** | **Value per unit at reporting date** | **Date Payable** |
|---|---|---|---|---|---|
| 1 Nov 2005 | 1 Nov 2008 | $6.47 | $1.35 | $1.40 | 1 November 2008 |
| 1 Nov 2006 | 1 Nov 2009 | $7.28 | $1.37 | $2.04 | 1 November 2009 |

*Announced Taxation Changes Impacting Stapled Securities*

In the May 2006 Budget, the Federal Government announced its intention to extend the employee share scheme and related capital gains tax provisions to stapled securities that include an ordinary share and are listed on the Australian Stock Exchange, with effect from 1 July 2006. Given this announcement, Transurban undertook a review of its Employee Equity Plans to ensure that they remained relevant and aligned to the interests of stapled security holders and remained operable under the constitution of the Transurban Holding Trust. As a result, the Transurban Board endorsed a new Performance Rights Plan to be introduced in November 2007.

*Performance Rights Plan ("PRP")*

Under the new PRP, Executives will be granted performance rights to acquire, at no cost to them, an allocated number of stapled securities, subject to the achievement of performance conditions at the end of a three year vesting period. Two performance measures will be utilised, one linked to Total Shareholder Return (TSR) over a three year vesting period and the second, an operational performance measure over the same period. The Plan has been structured so that rewards are only obtained if there are materially improved security holder returns and operational performance results over the three year vesting period. The performance hurdles attached to the performance rights have been set to ensure that both executives and stapled security holders generally benefit from the allocation of stapled securities to executives under the Plan.

There is only one testing date. The right to Stapled Securities cannot be transferred, exercised or otherwise dealt with during the vesting period.

Stapled securities vest in the executive if:

(a) the executive is employed by the Transurban Group for at least 3 years from the date of commencement of the Plan, unless the rules of the Plan otherwise provide; and

(b) the performance hurdles relevant to the offer are met.

Unless the Plan rules provide otherwise, no stapled securities will vest in the executive if the identified performance measures are not met. If an executive leaves the employ of the Transurban Group unvested securities will lapse.

No dividends or distributions are payable in respect of the stapled securities subject of the Plan during the vesting period.

*Performance Hurdles*

1. 50 per cent of rights vest subject to Total Shareholder Return (TSR) - The TSR performance hurdle involves a comparison of Transurban's listed stapled securities with the TSR of each other company (Test Company) in the S&P / ASX 100 Industrials (or similar or replacement index) for the whole period of comparison. The period of comparison (Performance Hurdle Test Period) will be three years.

   TSR measures total return on investment of a security. It takes into account both capital appreciation and distributed income. It assumes a notional reinvestment of distributions paid on the security (on a pre-tax basis) in additional securities, at the market price on the day before the securities begin trading ex the relevant distribution.

   Transurban and each of the Test Companies will be ranked according to their respective TSRs over the Performance Hurdle Test Period.

   This ranking determines the extent to which 50 per cent of Stapled Securities will vest.

   - If Transurban's TSR is ranked at or below the 50th percentile, none of the stapled securities will vest.
   - If Transurban's TSR is ranked at or above the 75th percentile, 100 per cent of the stapled securities under this measurement will vest.
   - Linear vesting if Transurban's TSR is ranked between the 50th and 75th percentiles

2. 50 per cent of rights vest subject to an operational performance measure based on EBITDA growth.

   - 50 per cent of rights under this measurement vest if there is 10 per cent compound EBITDA annual growth over the vesting period from the base year.
   - 100 per cent of rights under this measurement vest if there is 15 per cent compound EBITDA annual growth over the vesting period from the base year.
   - Linear vesting if ranking is between the two annual compound growth targets.

*Allocation of PRP Units*

The allocation of PRP units will be determined by the following: a remuneration value will be determined for each participant relative to their total employment cost. These values are referenced to external market benchmarks.

The number of stapled security rights an executive is entitled to, is derived by using an option valuation methodology such as the Black Scholes with Monte Carlo simulations or other similar method of calculation. These valuation methods take into account performance and other conditions. By dividing the remuneration value by this adjusted valuation, the number of stapled securities is derived.

Overseas based Executives

Executives based outside Australia will be eligible to participate in a cash based plan similarly structured to the PRP.

*Employee Security Ownership Plan ("ESOP")*

Following the Federal Governments announced taxation changes concerning stapled securities as previously noted, a review of the company's Employee Security Ownership Plan was undertaken, resulting in the implementation of two new Plans - the Investment Tax Exempt Plan and the Investment Tax Deferred Plan.

The Investment Tax Exempt Plan provides employees the opportunity to invest, on a tax exempt basis, up to one thousand dollars per annum, of which half is contributed by the company.

The Investment Tax Deferred Plan provides employees the opportunity to purchase securities, on a tax deferred basis using pre-tax salary. There is no cap on the amount of salary an employee may elect to contribute and the Company provides a matching contribution on a dollar for dollar basis to a maximum of three thousand dollars per annum.

The previous Incentive Plan has been retained. Subject to Board approval and the performance of the company, an allocation of securities at no cost to eligible permanent employees is made. In 2007 an allocation of 100 securities was made to 503 employees.

## E. Additional information (not audited)

***Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance***

The incentive component of executive remuneration is primarily determined by:

- financial performance relative to short-term profitability targets
- business achievements through the achievement of Group key result areas ("KRAs")
- project successes
- total shareholder return relative to other companies in the ASX Industrials index and

- individual performance as measured by the achievement of key performance indicators ("KPIs") and the upholding of Group values

The Groups performance over the past financial year is best measured by the success achieved through its business development activities and associated growth in market capitalisation.

Transurban achieved effective control of the Sydney Roads Group ("SRG") on 11 April 2007. As a result of the acquisition Transurban holds investments in the Eastern Distributor (M1), Interlink Roads Limited (M5) and Statewide Roads Limited (M4 Motorway) in New South Wales. This acquisition provides Transurban with a significant presence in the Sydney market and the opportunity to maximise security holder value through forecast synergies which will be achieved across the network totalling $8.0 million. Synergies realised to date total $5.4 million.

In preparation for future international development Transurban International Limited ("TIL") was formed on 3 January 2007 to create a more efficient vehicle for which investments in international assets can be made and allows for security holder distributions from these investments to be executed in a timely and efficient manner. TIL will own Transurban's investment in the Transurban DRIVe co investment vehicle which reached contractual close in August 2007.

These developments along with sustained growth in corner stone assets such as the Melbourne CityLink and the Hills M2 which achieved annual growth in revenue of 8.8 per cent and 16.9 per cent respectively have contributed to significant gains in market capitalisation increasing from $5.7 billion on 1 July 2006 to $8.6 billion at 30 June 2007.

Supporting the increased market capitalisation is the Group capacity to continue to grow its distributions through sustained cash generation and increased debt capacity. A distribution of 54.0 cents per security will be paid to security holders for the year ended 30 June 2007, representing an increase on the prior corresponding period of 8.0 per cent.

Transurban is currently ranked in the top 40 public companies listed on the ASX.

***Cash Bonuses and options***

Cash bonuses

Remuneration of the Group's executives includes a short term incentive (STI) component and each executive has the potential to receive 100 per cent (and over, depending on out performance) of his or her target STI payment. The actual STI payment received by each executive is determined by the extent to which the executive's KPIs are met.

Cash bonuses aggregating $3.8 million were incurred under the Business Generation Incentive Plan in relation to the acquisition of the Sydney Roads Group.

For each cash bonus paid to the directors and the 5 executives receiving the highest remuneration listed in the above tables, the percentage of the available bonus that was paid in the financial year and the percentage that was forfeited because the person did not meet his or her performance criteria is set out below. No part of the cash bonuses are payable in future years.

| | **Cash Bonus** | |
|---|---|---|
| **Name** | **Paid**<br>**%** | **Forfeited**<br>**%** |
| K Edwards | 100 | - |
| C Brant | 100 | - |
| B Bourke | 100 | - |
| P O'Shea | 100 | - |
| G Mann | 100 | - |
| K Daley | 100 | - |
| M Kulper | 100 | - |

*Options*

No options on issue to the directors and the 5 executives receiving the highest remuneration listed in the above tables vested in the current year and there are no remaining options on issue.

*Long Term Incentive Units*

Long term incentive units which were issued in September 2004 vested in September 2006 and were paid in November 2006.

Further details relating to long term incentives are set out below.

| **Name** | **A**<br>**Remuneration**<br>**%** | **B**<br>**Value at grant date**<br>**$** | **C**<br>**Value at exercise date**<br>**$** | **D**<br>**Value at lapse date**<br>**$** | **E**<br>**Total of columns B-D**<br>**$** |
|---|---|---|---|---|---|
| K Edwards – ELTI | - | - | 1,083,019 | 327,621 | 1,410,640 |
| K Edwards – share plan | 35 | 560,000 | - | - | 560,000 |
| C Brant – ELTI | - | - | 230,142 | 69,619 | 299,761 |
| C Brant – share plan | 40 | 240,000 | - | - | 240,000 |
| B Bourke – ELTI | - | - | 216,604 | 65,524 | 282,128 |
| B Bourke – share plan | 40 | 220,000 | - | - | 220,000 |
| P O'Shea – ELTI | - | - | 162,453 | 49,143 | 211,596 |
| P O'Shea – share plan | 40 | 168,000 | - | - | 168,000 |
| G Mann – share plan | 40 | 220,000 | - | - | 220,000 |
| K Daley – ELTI | - | - | 162,453 | 49,143 | 211,596 |
| K Daley – share plan | 30 | 126,000 | - | - | 126,000 |
| M Kulper – share plan | 30 | 135,000 | - | - | 135,000 |

A = The percentage of the value of remuneration, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 Share-based Payment.

C= The value at exercise date that were granted as part of remuneration and were exercised/matured during the year.

D = The value at lapse date that were granted as part of remuneration and that lapsed during the year.

### Securities under option

There are no unissued stapled securities of the Transurban Group under option at the date of this report.

### Securities issued on the exercise of options

The following Transurban Stapled Securities were issued during the year ended 30 June 2007 on the exercise of options granted under the Transurban Group's Employee Option Plan. No further securities have been issued since that date. No amounts are unpaid on any of the securities.

| Date options granted | Issue price of securities | Number of securities issued |
|---|---:|---:|
| 26 April 2001 | $3.817 | - |
| 23 October 2001 | $4.404 | - |
| 1 February 2002 | $4.280 | - |
| 9 April 2002 | $4.030 | - |
| 20 May 2002 | $4.220 | 76,283 |

### Indemnification and Insurance

The officers of the Group are indemnified against liability incurred by the person in their capacity as an officer unless the liability arises out of conduct on the part of the officer which involves a lack of good faith. The Group also indemnifies each person who is or has been an officer against liability for costs or expenses incurred by the person in his or her capacity as an officer 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 Act 2001.

Pursuant to this indemnification, the individual entities of the Group have paid premiums for an insurance policy for the benefit of directors, secretaries and executive officers and related bodies corporate of the Group, in the case of the Trusts within the Group the officers are indemnified out of the assets of the Trusts. In accordance with common practice, the insurance policies prohibit disclosure of the nature of the liability covered and the amount of the premium.

### Rounding off

The Group is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investment Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the combined entity are important.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants , including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the combined entity, acting as advocate for the combined entity or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **$** | $ |
| **1. Assurance services** | | | | |
| *Audit services* | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Audit and review of financial reports and other audit work under the Corporations Act 2001. | **1,013,000** | 689,850 | **77,000** | 37,500 |
| Fees paid to non-PricewaterhouseCoopers audit firms for the audit or review of financial reports | **75,000** | - | **-** | - |
| Total remuneration for audit services | **1,088,000** | 689,850 | **77,000** | 37,500 |
| *Other assurance services* | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Due diligence | **30,000** | 158,621 | **-** | 158,621 |
| Compliance plan audit | **-** | 24,700 | **-** | - |
| Other assurance services including IFRS | **293,200** | 329,335 | **-** | 111,691 |
| Controls assistance | **-** | 163,000 | **-** | - |
| Fees paid to non-PricewaterhouseCoopers audit firms | **713,685** | - | **-** | - |
| Total remuneration for other assurance services | **1,036,885** | 675,656 | **-** | 270,312 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **$** | $ |
| **2. Taxation services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Tax compliance services, including review of income tax returns | **158,900** | 104,735 | **2,958,592** | 104,735 |
| Tax consulting services | **3,221,200** | 1,128,028 | **382,273** | - |
| Indirect taxation services | **602,837** | 434,714 | **591,837** | - |
| Fees paid to non-PricewaterhouseCoopers audit firms | **186,355** | - | **-** | - |
| Total remuneration for taxation services | **4,169,292** | 1,667,477 | **3,932,702** | 104,735 |

**Auditors' independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the Corporation Act 2001 is set out on page 41.

**Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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

**David J Ryan AO**
Chairman

**Kimberley Edwards**
Managing Director

Melbourne
21 August 2007

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
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## Auditors' Independence Declaration

As lead auditor for the audit of the Transurban Group for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, the only contravention of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit is set out below.

On 13 July 2007, a non-audit service provider reported that he held an immaterial investment in Transurban Group that he received through compulsory acquisition of Sydney Roads Group. This staff member was immediately removed from providing services to the Transurban Group and the investment was sold.

The matter was identified as part of our ongoing quality control system. All reasonable steps were undertaken to ensure that this matter was resolved as soon as possible. I report that all matters have been resolved, and in doing so do not believe this matter has impacted my objectivity and impartiality for the purpose of this audit.

This declaration is in respect of the Transurban Group and the entities it controlled during the year.

Tim Goldsmith

Tim Goldsmith | Melbourne
Partner | 21 August 2007

**Transurban Group**
**Income statements for the year ended 30 June 2007**

| | Notes | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **Revenue from continuing operations** | 5 | **789,063** | 690,408 | **34** | 111 |
| Other income | 6 | **38,050** | 4,410 | **45,100** | 232,837 |
| Expenses from ordinary activities: | | | | | |
| Operational costs | | **(121,457)** | (105,291) | **-** | - |
| Corporate costs | | **(31,204)** | (28,979) | **(1,618)** | (1,454) |
| Corporate and Community Relations | | **(5,502)** | (6,278) | **-** | - |
| Business Development | | **(16,327)** | (9,033) | **-** | - |
| Concession Fees | 7 | **(5,003)** | (24,078) | **-** | - |
| Depreciation and amortisation expense | 7 | **(302,751)** | (258,065) | **-** | - |
| Finance costs | 7 | **(424,330)** | (372,092) | **(6,849)** | (364) |
| Share of net loss of associates and joint venture partnership accounted for using the equity method | | **(25,482)** | (8,634) | **-** | - |
| **(Loss)/profit before income tax** | | **(104,943)** | (117,632) | **36,667** | 231,130 |
| Income tax (expense)/benefit | 8 | **(18,803)** | 56,732 | **(5,440)** | 608 |
| (Loss)/profit from continuing operations | | **(123,746)** | (60,900) | **31,227** | 231,738 |
| (Loss) from discontinued operations after tax | 9 | **(28,438)** | - | **-** | - |
| **(Loss)/profit for the year** | | **(152,184)** | (60,900) | **31,227** | 231,738 |
| Profit / (loss) is attributable to: | | | | | |
| Equity holders of THL, THT & TL | | **(151,236)** | (60,900) | **31,227** | 231,738 |
| Equity holders of TIL (minority interest) | | **(197)** | - | **-** | - |
| Equity holders of M1 (minority interest) | | **(888)** | - | **-** | - |
| Equity holders of M4 (minority interest) | | **137** | - | **-** | - |
| | | **(152,184)** | (60,900) | **31,227** | 231,738 |
| **Earnings per security for profit / (loss) from continuing operations attributable to the ordinary equity holders:** | | **Cents** | Cents | | |
| Basic earnings per Stapled Security | 47 | **(14.0)** | (7.6) | | |
| Diluted earnings per Stapled Security | 47 | **(14.0)** | (7.6) | | |
| **Earnings per security for profit / (loss) attributable to the ordinary equity holders of the stapled group:** | | **Cents** | Cents | | |
| Basic earnings per Stapled Security | 47 | **(17.2)** | (7.6) | | |
| Diluted earnings per Stapled Security | 47 | **(17.2)** | (7.6) | | |

*The above income statements should be read in conjunction with the accompanying notes.*

**Transurban Group**
**Balance sheets as at 30 June 2007**

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Notes | **2007** | 2006 | **2007** | 2006 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | 10 | **449,255** | 323,110 | **88** | 411 |
| Trade and other receivables | 11 | **171,877** | 41,560 | **7,647** | 6,626 |
| | | **621,132** | 364,670 | **7,735** | 7,037 |
| Assets of disposal group classified as held for sale | 9 | **622,972** | - | **-** | - |
| Total Current Assets | | **1,244,104** | 364,670 | **7,735** | 7,037 |
| **NON-CURRENT ASSETS** | | | | | |
| Receivables | 13 | **4,411** | 186 | **34,492** | - |
| Investments accounted for using the equity method | 14 | **567,682** | 15,732 | **-** | - |
| Held-to-maturity investments | 15 | **557,731** | 469,767 | **-** | - |
| Derivative financial instruments | 16 | **113,410** | 21,926 | **26,711** | - |
| Available for sale financial assets | 17 | **7,910** | - | **7,910** | - |
| Other financial assets | 18 | **-** | - | **1,372,694** | 124,262 |
| Property, plant and equipment | 19 | **5,539,153** | 5,760,922 | **-** | - |
| Deferred tax assets | 20 | **327,293** | 260,570 | **222,937** | 221,978 |
| Intangible assets | 21 | **3,258,454** | 804,935 | **-** | - |
| Total Non-Current Assets | | **10,376,044** | 7,334,038 | **1,664,744** | 346,240 |
| **TOTAL ASSETS** | | **11,620,148** | 7,698,708 | **1,672,479** | 353,277 |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 22 | **184,725** | 78,625 | **910** | 139 |
| Borrowings | 23 | **383,300** | 265,142 | **-** | - |
| Non-Interest bearing liabilities | 24 | **437,954** | 39,205 | **1,670** | 2,609 |
| Provisions | 25 | **344,201** | 229,115 | **423** | 645 |
| Current tax liabilities | | **4,485** | - | **-** | - |
| | | **1,354,665** | 612,087 | **3,003** | 3,393 |
| Liabilities directly associated with assets of a disposal group classified as held for sale | 9 | **480,457** | - | **-** | - |
| Total Current Liabilities | | **1,835,122** | 612,087 | **3,003** | 3,393 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Borrowings | 26 | **3,565,414** | 3,549,872 | **1,232,762** | 36,190 |
| Deferred tax liabilities | 27 | **1,775,468** | 784,601 | **7,723** | 5 |
| Non-Interest bearing liabilities | 28 | **222,167** | 213,899 | **-** | - |
| Provisions | 29 | **1,752** | 364 | **-** | - |
| Derivative financial instruments | 16 | **203,373** | 81,075 | **-** | - |
| Total Non-Current Liabilities | | **5,768,174** | 4,629,811 | **1,240,485** | 36,195 |
| **TOTAL LIABILITIES** | | **7,603,296** | 5,241,898 | **1,243,488** | 39,588 |
| **NET ASSETS** | | **4,016,852** | 2,456,810 | **428,991** | 313,689 |

**Transurban Group**
**Balance sheets as at 30 June 2007**

| | Notes | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **EQUITY** | | | | | |
| **Equity holders of THL, THT & TL** | | | | | |
| Contributed equity | 30 | **6,078,487** | 4,277,736 | **167,094** | 83,068 |
| Reserves | 31 | **(18,830)** | (53,087) | **69** | 20 |
| Retained profits / (accumulated losses) | 31 | **(2,434,808)** | (1,767,839) | **261,828** | 230,601 |
| Parent entity interest | | **3,624,849** | 2,456,810 | **428,991** | 313,689 |
| Equity holders of TIL (minority interest) | 32 | **(197)** | - | **-** | - |
| **Stapled security holders interest in the Transurban Group** | | **3,624,652** | 2,456,810 | **428,991** | 313,689 |
| Equity holders of M1 (minority interest) | 32 | **343,940** | - | **-** | - |
| Equity holders of M4 (minority interest) | 32 | **48,260** | - | **-** | - |
| **TOTAL EQUITY** | | **4,016,852** | 2,456,810 | **428,991** | 313,689 |

*The above balance sheets should be read in conjunction with the accompanying notes.*

**Transurban Group**
**Statements of changes in equity for the year ended 30 June 2007**

| | Notes | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **Total equity at the beginning of the financial year** | | **2,456,810** | 2,805,047 | **313,689** | 74,870 |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax: | | | | | |
| Retained Profits | | **-** | 16,840 | **-** | - |
| Reserves | 31 | **-** | (40,074) | **-** | - |
| **Restated total equity at the beginning of the financial year** | | **2,456,810** | 2,781,813 | **313,689** | 74,870 |
| Exchange differences on translation of foreign operations | 31 | **(11,181)** | - | **-** | - |
| Changes in fair value of cash flow hedges, net of tax | 31 | **42,528** | (14,201) | **-** | - |
| **Net income recognised directly in equity** | | **31,347** | (14,201) | **-** | - |
| **Profit/(loss) for the year** | | **(152,184)** | (60,900) | **31,227** | 231,738 |
| **Total recognised income and expense for the year** | | **(120,837)** | (75,101) | **31,227** | 231,738 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Changes in fair value of share-based payments | 31 | **2,910** | 1,188 | **49** | 20 |
| Exercise of employee security options | 30 | **325** | 11,465 | **26** | 755 |
| Treasury securities | 30 | **(13,360)** | (10,227) | **(509)** | (442) |
| CARS conversion, net of transaction costs | 30 | **362,071** | 56,267 | **21,527** | 2,722 |
| Issue on acquisition of Sydney Roads Group, net of transaction costs | | **1,221,959** | - | **52,793** | - |
| Distribution reinvestment plan | 33 | **229,756** | 93,003 | **10,189** | 4,026 |
| Distributions provided for or paid | 33 | **(515,733)** | (401,598) | **-** | - |
| Minority interest on acquisition of subsidiaries | 32 | **414,237** | - | **-** | - |
| Distributions provided for or paid to minority interests in subsidiaries | 32 | **(21,286)** | - | **-** | - |
| | | **1,680,879** | (249,902) | **84,075** | 7,081 |
| **Total equity at the end of the financial year** | | **4,016,852** | 2,456,810 | **428,991** | 313,689 |
| **Total recognised income and expense for the year is attributable to:** | | | | | |
| Equity holders of the Transurban Group | | **(119,889)** | (75,101) | **31,227** | 231,738 |
| Minority interest | 32 | **(948)** | - | **-** | - |
| | | **(120,837)** | (75,101) | **31,227** | 231,738 |

*The above statements of changes in equity should be read in conjunction with the accompanying notes.*

**Transurban Group**
**Cash Flow statements for the year ended 30 June 2007**

| | Notes | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers (inclusive of GST) | | **577,851** | 485,874 | **76** | 62 |
| Payments to suppliers (inclusive of GST) | | **(262,200)** | (207,766) | **(1,993)** | (1,377) |
| Interest received | | **195,238** | 186,189 | **48** | 122 |
| Other revenue | | **18,261** | 6,256 | **-** | - |
| Income taxes paid | | **(5,321)** | (9,688) | **-** | - |
| Interest paid | | **(365,685)** | (288,643) | **(5,345)** | - |
| **Net cash inflows/(outflows) from operating activities** | 44 | **158,144** | 172,222 | **(7,214)** | (1,193) |
| **Cash flows from investing activities** | | | | | |
| Payment for purchase of subsidiaries, net of cash acquired | | **(11,698)** | (98,412) | **(64,408)** | (36,190) |
| Payments for property, plant and equipment | | **(51,766)** | (67,953) | **-** | - |
| Payments for intangibles | | **(20,883)** | (673,217) | **(3)** | - |
| Payments for Tullamarine/Calder Freeway upgrade | | **-** | (161,985) | **-** | - |
| Payments for available for sale financial assets | | **(7,832)** | - | **(7,832)** | - |
| Cash advances | | **(962)** | - | **(962)** | - |
| Dividends received from associate | | **7,013** | - | **-** | - |
| Loans to related parties | | **-** | - | **(36,310)** | (7,996) |
| Repayment of loans by related parties | | **-** | 691 | **37,931** | 8,171 |
| **Net cash (outflows) from investing activities** | | **(86,128)** | (1,000,876) | **(71,584)** | (36,015) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of stapled securities | | **327** | 11,468 | **26** | 756 |
| Proceeds from sale of treasury securities | | **1,684** | - | **72** | - |
| Increase in cash collateral | | **42,358** | 38,507 | **-** | - |
| Proceeds from borrowings | | **1,209,021** | 2,810,451 | **-** | - |
| Payments for establishing borrowing facilities | | **(2,610)** | (22,708) | **-** | - |
| Payments for treasury securities | | **(15,053)** | (10,228) | **(579)** | (442) |
| Repayment of borrowings | | **(886,559)** | (1,788,000) | **-** | - |
| Repayment of infrastructure facilities | 23 | **(1,249,000)** | - | **-** | - |
| Loans from related parties | | **-** | - | **118,651** | 48,083 |
| Repayment of loans to related parties | | **(500)** | - | **(39,695)** | (18,681) |
| Preference distributions | | **(1,181)** | - | **-** | - |
| Distributions paid to company's security holders | 33 | **(197,408)** | (243,240) | **-** | - |
| Distributions paid to minority interests in subsidiaries | | **(8,336)** | - | **-** | - |
| **Net cash (outflow)/inflows from financing activities** | | **(1,107,257)** | 796,250 | **78,475** | 29,716 |
| **Net increase/(decrease) in cash at bank and cash collateral** | | **(1,035,241)** | (32,404) | **(323)** | (7,492) |
| Cash at bank and cash collateral at the beginning of the financial year | | **1,995,692** | 2,029,636 | **411** | 7,903 |
| Effects of exchange rate changes on cash and cash equivalents | | **(5,963)** | (1,540) | **-** | - |
| Cash at bank and cash collateral at the end of the financial year | 10 | **954,488** | 1,995,692 | **88** | 411 |
| Less cash collateral | 10 | **(465,940)** | (1,672,582) | **-** | - |
| **Cash and cash equivalents at the end of the financial year** | 10 | **488,548** | 323,110 | **88** | 411 |

*The above cash flow statements should be read in conjunction with the accompanying notes.*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The combined financial report includes separate financial statements for Transurban Holdings Limited (THL) as an individual entity and for the Stapled Group, consisting of Transurban Holdings Limited and its subsidiaries, Transurban Holding Trust and its subsidiaries and Transurban International Limited and its subsidiaries.

The comparative period financial report consisted of the aggregated financial statements of Transurban Holdings Limited and its subsidiaries, Transurban Holdings Trust and its subsidiaries and Transurban Limited and its subsidiaries. On 3 January 2007, Transurban Limited was destapled from the Transurban stapled group and replaced with Transurban International Limited.

This general purpose financial report for the year ended 30 June 2007 has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. Where necessary, comparatives have been reclassified for consistency with current year disclosures.

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards ("IFRS").

*Early adoption of standards*

The Group has not elected to adopt any new accounting standards early.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and other financial assets and liabilities (including derivative instruments).

*Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### (a) Principles of Consolidation

*Application of UIG 1013 Pre date of transition stapling arrangements and AASB Interpretation 1002 Post date of transition stapling arrangements*

For the purpose of UIG 1013 and AASB Interpretation 1002, Transurban Holdings Limited (THL) has been identified as the Parent Entity in relation to the pre date of transition stapling with Transurban Holding Trust (THT) and the post date of transition stapling with Transurban International Limited (TIL). In accordance with UIG 1013 the results and equity of THL and THT have been combined in the financial statements. In accordance with AASB Interpretation 1002 however the results and equity, not directly owned by THL, of TIL have been treated and disclosed as minority interest. Whilst the results and equity of TIL are disclosed as minority interest, the stapled security holders of THL and THT are the same as the stapled security holders of TIL.

The comparative figures in the combined income statements, combined statements of changes in equity and combined cash flow statements comprises the results, changes in equity and cash flows of THL and its subsidiaries, THT and its subsidiaries and Transurban Limited (TL) and its subsidiaries. The current period figures in the combined income statements, combined statements of changes in equity and combined cash flow statements reflect the combined results, changes in equity and cash flows of THL (and its subsidiaries), THT (and its subsidiaries) for the full financial year ended 30 June 2007 and TIL (and its subsidiaries) from the date of stapling (3 January 2007) to 30 June 2007, and Transurban Limited (and its subsidiaries) up to the date of de-stapling (3 January 2007).

The prior period balance sheets reflect the combined position of THL, THT and TL (including the subsidiaries they controlled). The current period balance sheets reflect the combined position of THL, THT and TIL (including the subsidiaries they controlled).

*Subsidiaries*

Subsidiaries are all those entities (including special purpose entities) over which the Stapled Group has the power to govern the financial and operating policies. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Where control of an entity is obtained during a financial year, its results are included in the combined income statement from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The aggregated financial statements 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 accounts except as otherwise indicated.

The financial statements have been aggregated in recognition of the fact that the securities issued by the parent entities are stapled into parcels. A Stapled Security comprises one share in Transurban Holdings Limited, one share in Transurban International Limited and one unit in Transurban Holding Trust. None of the components of the Stapled Security are able to be traded separately.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

*Associates and joint ventures*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Interests in joint ventures are where the Group jointly controls an entity with another party.

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements, after initially being recognised at cost. Similarly, the interest in the joint venture partnership is accounted for using the equity method.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates and joint ventures are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(b) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

**(c) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group financial statements are presented in Australian dollars, which is Transurban Holdings Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets are included in the fair value reserve in equity.

*(iii) Group companies*

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

**(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised in the major business activities as follows:

*(i) Toll and fee revenue*

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

*(ii) Advertising revenue*

Advertising revenue is recognised over the period of service in accordance with contractual arrangements with the signage contractors.

*(iii) IT development fees (contract)*

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense incurred, and where it is probable that costs will be recovered, revenue is recognised to the extent of costs incurred.

For fixed term contracts, the stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours for each contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus the percentage of fees earned. The percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

*(iv) Interest income*

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

*(v) Prepaid toll revenue*

Prepaid toll receipts are recognised as an unearned income and held on deposit until the charge is incurred by the user.

**(e) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**Tax consolidation legislation**

The Transurban Group has adopted the tax consolidation legislation for Transurban Holdings Limited and its wholly-owned Australian entities as of 1 July 2005.

All entities within the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidation group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the parent entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and tax credits assumed from controlled entities in the tax consolidation group.

The subsidiaries recognise tax expense/income and current and deferred tax balances in relation to their own taxable income, temporary differences and tax losses. The subsidiaries account for current liabilities or any tax losses being assumed by the head entity and amounts payable or receivable. Any difference between the two amounts is treated as an equity transaction that is a distribution to or a contribution from, the head entity.

**(f) Leases**

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases (note 37). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease incentives are recognised as a reduction of the rental expense over the lease term on a straight line basis.

**(g) Business combinations**

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity and internal costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(p)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(h) Impairment of Assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the impairment occurs.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(i) Cash and Cash Equivalents**

For cash flow statement presentation, cash and cash equivalents includes cash on hand, cash deposits held at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Refer note 1(s) for details of cash collateral assets.

**(j) Trade Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement no more than 31 days from the date of revenue recognition.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

### (k) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

### (l) Investments and other Financial Assets

#### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 11).

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the reporting date, which are classified as current assets.

*(iv) Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

**Recognition and derecognition**

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed through the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

**Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity except for impairment losses. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

**Impairment**

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity, and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

**(m) Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of the cash flow of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At the inception of the hedging transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements in the hedging reserve in shareholders' equity are shown in note 31. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

*(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

*(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for the hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

**(n) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated at the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provisions of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (o) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

***Amortisation and Depreciation***

*CityLink fixed assets*

Amounts classified as CityLink fixed assets are amortised over the estimated term of the right granted to operate CityLink (32 years), or the estimated useful lives of the assets, whichever is less. Amortisation by the combined entity commenced on 18 December 2001 and is calculated on a straight line basis. The period of amortisation will be assessed annually.

*M2 Motorway Fixed Assets*

Amounts classified as M2 Motorway fixed assets are amortised over 28 years, being the estimated term of the right to operate the M2 Motorway or the estimated useful lives of the assets, whichever is less. Amortisation by the combined entity commenced on 12 April 2005 and is calculated on a straight line basis. The period of amortisation is assessed annually.

*Other plant and equipment*

Depreciation is calculated on a straight line basis so as to write off the net cost of items of plant and equipment over their expected useful lives. Estimates of remaining useful lives will be made on a regular basis for all assets. The expected useful lives are 3 – 15 years.

*Impairment*

The fixed assets are assessed for impairment in line with the policy stated in note (h) Impairment of Assets.

### (p) Intangible Assets

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

*(ii) Development Costs*

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services and direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

Following the initial recognition of the development expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation is based on the useful life of the development costs. Useful lives are assessed on an annual basis and adjustments, where applicable, are made on a prospective basis.

The carrying value of development costs is reviewed for impairment when an indicator of impairment arises.

*(iii) Pocahontas Permit*

The Pocahontas permit has been assessed as having a finite useful life of 50 years and is carried at cost less accumulated amortisation and impairment losses. Amortisation was calculated using the straight-line method to allocate the cost of the asset over its estimated useful life, until such time as the asset was classified as a non-current asset held for sale and amortisation ceased (refer note 9).

*(iv) M1 Eastern Distributor and M4*

The Group hold intangible assets which represent the right to levy tolls in respect of the M1 Eastern Distributor and the M4. These intangible assets have finite useful lives which cease on 24 July 2048 and 15 February 2010 respectively. They are carried at cost which represents fair value on acquisition less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the intangible assets over their estimated useful lives.

**(q) Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

**(r) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption amount are recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (s) Infrastructure Loan Facilities

The consolidated entity has Infrastructure Loan facilities. Under the terms of these facilities, the consolidated entity must provide cash collateral equal to the utilised amounts of the facilities. The principal of this cash collateral has been set-off against the outstanding principal amount of the infrastructure borrowing facilities so that no asset or liability in respect of those facilities has been recorded in the balance sheet of the consolidated entity.

### (t) Concession Notes

CityLink

The Group has non-interest bearing long term debt, represented by the Concession Notes, payable to the State of Victoria. The State has assigned the right to receive all current and future Concession Notes issued back to the Group. The Group has exercised its right to offset the Concession Notes payable and receivable. Refer note 28.

M1 Eastern Distributor

The Group has non-interest bearing long term debt, represented by the Concession Notes, payable to the Roads and Traffic Authority on NSW as required under the terms of the Eastern Distributor Project Deed.

The discount rate applied is 12 per cent. Refer note 28.

### (u) Promissory Notes

Non-interest bearing long term debt represented by Promissory Notes payable to the state of New South Wales in respect of the M2 Motorway has been included in the financial statements at the present value of expected future repayments. As the timing and profile of these repayments is largely determined by the available equity cashflows of the underlying asset, the present value of the expected future repayments is determined using a discount rate, which recognises their subordinated nature. In the event that there is a change in the expected timing and profile of the repayments, the impact is recognised in the income statement.

The discount rate applied to the Promissory Notes is 12 per cent (2006 – 12 per cent). Refer note 28.

### (v) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except to the extent to which they relate to the construction of qualifying assets in which case specifically identifiable borrowing costs are capitalised into the cost of the asset. Borrowing costs include interest on short-term and long-term borrowings.

Costs incurred in connection with the arrangement of borrowings are deferred and amortised over the effective period of the funding.

### (w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### (x) Employee benefits

*(i) Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. An expense for non-accumulating sick leave is recognised when the leave is taken and measured at the rates paid or payable.

*(ii) Long service leave*

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Equity-based compensation benefits*

Equity-based compensation benefits have been provided to employees via the Transurban Group Executive Option Plan. The Group has applied the exemptions included in AASB1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards whereby no accounting entries are made in relation to the Executive Option Plan until the options are exercised, at which time the amounts receivable from employees are recognised in the balance sheet as share capital. This exemption is only available to option plans granted prior to 7 November 2002.

*(iv) Share-based compensation benefits*

*i. Cash rewards*

Share based compensation benefits are provided to employees via the Transurban Group Long-term Incentive Plan. Units are allocated to reporting periods on a pro-rata basis from the grant date to the maturity date. Units allocated to a particular reporting period are valued on the reporting date and an employee benefit expense and an employee benefit liability are recognised at the amount of the valuation for each unit allocated.

On each reporting date, the units allocated to prior periods are revalued and the liability is adjusted. The movement in the liability is recognised as an employee benefits expense. This revaluation occurs until all the units are exercised or lapse.

On the exercise date where a cash bonus is paid, any difference between the cash payment and the liability in relation to those units is recognised as an adjustment to employee benefits expense in that period.

*ii. Executive Loan Plan*

Share based payment benefits are provided to employees in the form of Option Awards via the Transurban Executive Loan Plan ("ELP"). Transurban Group stapled securities are assigned to employees and locked. An option-pricing model is used to fair value the awards at grant date and at each subsequent reporting date until vesting, a charge to the income statement is calculated. This charge is calculated using the fair value at the grant date, an estimate of the awards likely to vest and the expired portion of the vesting period (3 years).

The charge to the income statement for each reporting period is the cumulative amount calculated at the reporting date, less the amounts already charged in previous periods with a corresponding credit to equity reserves. Once the awards have vested no further accounting adjustments are made to the cost of the award.

*(v) Superannuation*

Superannuation is contributed to plans as nominated by the employee. The contribution is not less than the statutory minimum. The superannuation plans are all accumulation funds.

The cost of current and deferred employee compensation and contributions to employee superannuation plans were charged to the income statement.

*(vi) Business Generation Incentive Plan*

The Group recognises a liability for bonuses as part of a Business Generation Incentive Plan. The Plan provides for cash bonuses to be paid from a bonus pool determined by the risk adjusted net present value of a project or business venture. The Plan is intended to reward executives for successful business generation activities, based on the increase in security holder value derived from new business.

### (y) Contributed equity

Stapled securities and ordinary shares and units are classified as equity.

Incremental costs directly attributable to the issue of new stapled securities or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new securities or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a security buy-back, those instruments are deducted from equity. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (z) Distributions

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

### (aa) Earnings per stapled security

*(i) Basic Earnings per Stapled Security*

Basic earnings per stapled security is calculated by dividing the profit attributable to members of the stapled security excluding any minority interest and costs of servicing equity other than distributions, by the weighted average number of securities outstanding during the financial year. Because 100 per cent of the earnings of TIL are included in minority interest, but are available to the security-holders, an alternative presentation of earnings per security is also presented which is calculated as above, but includes earnings attributable to minority interest of TIL.

*(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 the weighted average number of stapled securities assumed to have been issued for no consideration in relation to dilutive potential stapled securities.

### (ab) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**(ac) Trust Formation**

The Transurban Holding Trust was established on 15 November 2001. The Trust was due to terminate on 20 December 2081 unless terminated earlier. However, amendments made to the Trust Deed have extended the Trust to perpetuity.

The Trust was registered as a managed investment scheme by the Australian Securities and Investments Commission on 28 November 2001.

**(ad) Rounding of Amounts**

The combined Group 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 in accordance with that Class Order to the nearest thousand dollars or in certain cases the nearest dollar.

**(ae) New Accounting Standards and UIG Interpretations**

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 30 June 2007 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(ii) AASB-I 10 *Interim Financial Reporting and Impairment*

AASB-1 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's financial statements.

(iii) AASB-I 12, *Service Concession Arrangements*, AASB 2007-2 *Amendments to Australian Accounting Standards arising from AASB Interpretation 12*, revised UIG 4 *Determining whether an Arrangement contains a Lease* and revised UIG 129 *Service Concession Arrangements: Disclosures*

AASB-I 12, AASB 2007-2, UIG 4 and the revised UIG 129 are all effective for annual reporting periods commencing on or after 1 January 2008.

AASB-I 12 provides guidance on the accounting by operators for public-to-private service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities. UIG 4 has been amended to exclude public-to-private service concession arrangement from its scope and UIG 129 was revised to require some additional disclosures. The Group has elected not to adopt the interpretation and associated revisions to other accounting standards and UIG pronouncements early.

Application of the Interpretation is likely to affect the classification of certain Property, Plant and Equipment and Intangible assets as well as impact the recognition of 'make-good' provisions in relation to concession assets. The impact of the application of this Interpretation has not yet been quantified.

(iv) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

(v) Revised AASB 101 *Presentation of Financial Statements*

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting period beginning on or after 1 January 2007. The Group has not adopted the standard early. Application of the revised standard will not affect any of the amounts recognised in the financial statements, but will remove some of the disclosures currently required.

(vi) AASB-I 11 *AASB 2 – Group and Treasury Share Transactions* and AASB 2007-1 *Amendments to Australian Standards arising from AASB Interpretation 11*

AASB-I 11 and AASB 2007-1 are effective for annual reporting periods commencing on or after 1 March 2007. AASB-I 11 addresses whether certain types of share-based payment transactions should be accounted for as equity-settled or as cash settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The Group has not yet determined the impact of applying AASB-I 11.

(vii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This is consistent with the current group accounting policy therefore no impact on the financial statements is expected.

## 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

Risk management is carried out by Finance under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

### (a) Market risk

*(i) Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US Dollar. The Group is also exposed to foreign exchange risk on its US private placement borrowings.

Forward contracts, transacted by Finance, are used to manage foreign exchange risk. Finance is responsible for managing exposures in each foreign currency by using external forward currency contracts. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

*(ii) Price Risk*

The Group is exposed to securities price risk. This arises from arrangements of the Group which are classified on the balance sheet as either available-for-sale or fair value through profit or loss. The Group is not exposed to commodity price risk.

*(iii) Interest rate risk*

Refer to (d) below.

### (b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that transactions are made with commercial customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group continually monitors the credit ratings and credit exposure of each counterparty.

### (c) Liquidity risk

The Group maintains sufficient cash, uncommitted and overdraft facilities to maintain short-term flexibility and enable the Group to meet financial commitments in a timely manner.

### (d) Cash flow interest rate risk

As the Group has no significant floating interest rate assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly semi-annually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The Group's risk management policy is to hedge approximately 80 per cent of its borrowings out to 5 years in fixed rate instruments. Beyond 5 years the maturity of the hedge should match the maturity of the underlying debt.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below.

*(i) Income taxes*

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact current and deferred tax provisions in the period in which such determination is made.

*(ii) Useful lives of plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on expected useful lives of technology. It could change significantly as a result of technical innovations. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets.

Management depreciates the assets associated with the various toll road infrastructure over the life of the respective concession agreements.

*(iii) Estimated impairment of intangibles and cash generating units*

The Group tests whether goodwill and cash generating units have suffered any impairments, in accordance with the accounting policy stated in note 1(h). The recoverable amount of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions regarding traffic flows, discount rates, growth rates and other factors affecting operating activities of the cash generating units.

*(iv) Valuation of Promissory notes and Concession Notes*

The Group holds non-interest bearing long term debt represented by promissory notes and concession notes that are included in the financial statements at the present value of expected future repayments. The calculations to discount these notes to their present value are based on the timing and profile of the repayments. Assumptions are made in determining the timing and profile, based on expected available equity cash flows of the Group's cash generating units.

A discount rate is used to value the promissory notes and concession notes to their present value, which is determined through reference to other facilities in the market with similar characteristics.

*(v) Option Valuation*

On adoption of AASB 139 options held to acquire an interest in the Westlink M7 project have been revalued at their fair value. These fair value calculations require and have been based on assumptions, regarding traffic flows, discount rates, growth rates and other factors affecting operating activities of the M7. Gains or losses arising from changes in the fair value of the options are presented in the income statement in the period in which they arise.

*(vi) Fair value of derivatives and other financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

## 4. SEGMENT INFORMATION

The Group's primary business segment for the year ending 30 June 2007 was the operation of toll roads as noted below, and the investigation of possible investment opportunities in the segment. The secondary reporting segment of the Group is by geographical region. The regions are as follows:

- Victoria - CityLink
- New South Wales - Hills M2 Motorway
  - 47.5 per cent interest in the Westlink M7 Motorway
  - 71.35 per cent interest in the M1 Motorway Eastern Distributor
  - 50.61 per cent interest in the M4 Motorway
  - 50 per cent interest in the M5 South-West Motorway
- USA - Pocahontas Parkway

Geographical segment information is provided in the table below and reflects the Transurban Group's activities in relation to geographically unique locations.

| | Segment Revenues | | Segment Assets | | Acquisitions of PP&E, intangibles, and other non-current segment assets | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Vic - Australia | **345,519** | 310,126 | **4,387,609** | 3,868,952 | **373,370** | 52,179 |
| NSW - Australia | **158,556** | 125,669 | **6,580,657** | 3,109,967 | **2,713,209** | 41,042 |
| USA | **17,617** | - | **651,882** | 717,226 | **10,501** | 667,764 |
| Other | **-** | - | **-** | 2,563 | **909** | 3,339 |
| | **521,692** | 435,795 | **11,620,148** | 7,698,708 | **3,097,989** | 764,324 |

## 5. REVENUE

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **From continuing operations** | | | | |
| Toll revenue | **467,324** | 384,211 | **-** | - |
| Fee revenue | **21,881** | 16,007 | **-** | - |
| Advertising revenue | **4,059** | 4,028 | **-** | - |
| IT development fees | **-** | 25,321 | **-** | - |
| Customer management | **6,242** | 3,137 | **-** | - |
| Other | **4,570** | 3,091 | **-** | - |
| | **504,076** | 435,795 | **-** | - |
| *Other revenue* | | | | |
| Interest | **272,610** | 244,631 | **34** | 111 |
| Finance fee | **9,568** | 8,697 | **-** | - |
| Other | **2,809** | 1,285 | **-** | - |
| | **284,987** | 254,613 | **34** | 111 |
| | **789,063** | 690,408 | **34** | 111 |
| **From discontinued operations (note 9)** | | | | |
| Toll revenue | **16,351** | - | **-** | - |
| Fee revenue | **-** | - | **-** | - |
| Other | **1,265** | - | **-** | - |
| | **17,616** | - | **-** | - |
| *Other revenue* | | | | |
| Interest | **2,203** | - | **-** | - |
| | **2,203** | - | **-** | - |
| | **19,819** | - | **-** | - |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 6. OTHER INCOME

| | | | | |
|---|---|---|---|---|
| Foreign exchange gains (net) | **11,339** | 1,470 | **-** | - |
| Investment income from tax consolidated entities | **-** | - | **18,389** | 232,837 |
| Fair value gains on financial assets at fair value through profit or loss (note 12) | **-** | 2,940 | **-** | - |
| Fair value gains on derivatives (note 16) | **26,711** | - | **26,711** | - |
| | **38,050** | 4,410 | **45,100** | 232,837 |
| **From discontinued operations (note 9)** | | | | |
| Foreign exchange gains (net) | **282** | - | **-** | - |
| | **282** | - | **-** | - |

## 7. EXPENSES

| | | | | |
|---|---|---|---|---|
| **Profit (loss) before income tax includes the following specific expenses:** | | | | |
| *Net loss on disposal of property, plant and equipment* | **249** | 207 | **-** | - |
| *Bad and doubtful debts - trade debtors* | **723** | 986 | **-** | - |
| *Project development impairment* | **8,120** | 1,949 | **-** | - |
| *Rental expenses relating to operating leases* | **3,120** | 3,592 | **-** | - |
| *Employee benefit expense* | **47,643** | 36,911 | | - |
| *Concession fees are attributable to:* (1) | | | | |
| CityLink Melbourne | **-** | 22,053 | **-** | - |
| M2 Motorway | **1,263** | 2,025 | **-** | - |
| M1 Eastern Distributor | **3,740** | - | **-** | - |
| | **5,003** | 24,078 | **-** | - |

(1) Concession fees are an operational cost.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Depreciation and amortisation expense* | | | | |
| Operational | **305,749** | 256,278 | **-** | - |
| Less amortisation from discontinued operations | **(8,824)** | - | **-** | - |
| Total operational | **296,925** | 256,278 | **-** | - |
| Corporate | **5,826** | 1,787 | **-** | - |
| | **302,751** | 258,065 | **-** | - |
| *Finance costs* | | | | |
| Interest and finance charges paid/payable | **359,473** | 312,300 | **3,037** | 364 |
| Interest rate hedging charges paid/payable | **16,160** | 14,533 | **3,812** | - |
| Remeasurement of Tullamarine/Calder Freeway upgrade payable | **-** | 4,505 | **-** | - |
| Remeasurement of Monash-CityLink-Westgate upgrade payable | **48,811** | - | **-** | - |
| | **424,444** | 331,338 | **6,849** | 364 |
| Movement in concession/promissory notes | **(114)** | 40,754 | **-** | - |
| *Total Finance costs* | **424,330** | 372,092 | **6,849** | 364 |

*Movement in concession/promissory notes*

| ***Year ended 30 June 2006*** | **CityLink** | **M2 Motorway** | **M1 Eastern Distributor** | **Total** |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Recognised in finance costs: | | | | |
| Remeasurement of notes on issue from prior periods | 11,010 | (11,682) | - | (672) |
| Remeasurement of notes due to change in discount rate to 9.7 per cent (2005 - 12 per cent) | 41,426 | - | - | 41,426 |
| | 52,436 | (11,682) | - | 40,754 |

| ***Year ended 30 June 2007*** | **CityLink** | **M2 Motorway** | **M1 Eastern Distributor** | **Total** |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Recognised in finance costs: | | | | |
| Remeasurement of notes on issue from prior periods | **-** | **1,405** | **1,102** | **2,507** |
| Remeasurement of notes due to change payment profile | **-** | **(2,621)** | **-** | **(2,621)** |
| | **-** | **(1,216)** | **1,102** | **(114)** |

## 8. INCOME TAX EXPENSE

### Tax consolidation legislation

The Transurban Group elected to implement tax consolidation legislation for Transurban Limited and its wholly owned Australian entities with effect from 1 July 2003 and for Transurban Holdings Limited and its wholly owned Australian entities with effect from 1 July 2005. The accounting policy on implementation of the legislation is set out in note 1(e).

Transurban Limited was de-stapled from the triple stapled security on 3 January 2007, and 100 per cent of the issued shares in Transurban Limited were acquired by Transurban Holdings Limited. Transurban Limited now forms part of the Transurban Holdings Limited tax consolidation group.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **a) Income tax expense** | | | | |
| Current tax | **4,384** | - | **-** | - |
| Deferred tax | **21,624** | (49,938) | **5,440** | (512) |
| Under (over) provided in prior years | **(5,706)** | (6,794) | **-** | (96) |
| | **20,302** | (56,732) | **5,440** | (608) |
| Income tax expense is attributable to: | | | | |
| profit from continuing operations | **18,803** | (56,732) | **5,440** | (608) |
| profit from discontinued operations | **1,499** | - | **-** | - |
| Aggregate income tax expense | **20,302** | (56,732) | **5,440** | (608) |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | | | |
| Decrease (increase) in deferred tax assets (note 20) | **(13,483)** | 14,236 | **(2,278)** | (509) |
| (Decrease) increase in deferred tax liabilities (note 27) | **35,107** | (64,174) | **7,718** | (3) |
| | **21,624** | (49,938) | **5,440** | (512) |

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **b) Numerical reconciliation of income tax expense to prima facie tax payable** | | | | |
| **(i) Continuing operations** | | | | |
| Profit from continuing operations before income tax expense | **(104,943)** | (117,632) | **36,667** | 231,130 |
| Trust and overseas entities not subject to tax in Australia | **75,576** | (65,267) | **-** | - |
| Revised Profit from continuing operations before income tax expense | **(29,367)** | (182,899) | **36,667** | 231,130 |
| Tax at the Australian tax rate of 30% (2006 - 30%) | **(8,810)** | (54,870) | **11,000** | 69,339 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Market value uplift on CityLink depreciable assets on tax consolidation | **-** | (34,200) | **-** | - |
| Infrastructure bond interest | **18,777** | 26,440 | **-** | - |
| RIB interest | **23,260** | 11,552 | **-** | - |
| Benefits from tax group subsidiaries | **-** | - | **(5,517)** | (69,851) |
| Non-deductible depreciation & amortisation | **(150)** | 642 | **-** | - |
| Tax benefit from foreign tax jurisdiction | **(13,495)** | - | **-** | - |
| Entertainment | **143** | 142 | **-** | - |
| Equity accounted results | **(2,031)** | - | **-** | - |
| Non-deductible preference distribution | **354** | - | **-** | - |
| Non-assessable income | **(6,871)** | - | **-** | - |
| Other | **301** | 356 | **(43)** | - |
| | **20,288** | 4,932 | **(5,560)** | (69,851) |
| Under (over) provision in prior years | **(5,706)** | (6,794) | **-** | (96) |
| Prior year tax losses written off | **13,031** | - | **-** | - |
| Income tax expense | **18,803** | (56,732) | **5,440** | (608) |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **(ii) Discontinued operations** | | | | |
| Profit from discontinued operations before income tax expense | **(26,939)** | - | **-** | - |
| Tax at the Australian tax rate of 30% (2006 - 30%) | **(8,082)** | - | **-** | - |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Differences in overseas tax rates | **1,347** | - | **-** | - |
| Other | **8,234** | - | **-** | - |
| | **9,581** | - | **-** | - |
| Income tax expense | **1,499** | - | **-** | - |
| **c) Amounts recognised directly in equity** | | | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | | | |
| Net deferred tax - debited (credited) directly to equity (refer note 31) | **16,420** | (18,626) | **-** | - |
| | **16,420** | (18,626) | **-** | - |
| **d) Franking Credits** | | | | |
| Balance 1 July | **30,378** | - | **30,378** | - |
| Acqusition of subsidiaries | **41,329** | - | **-** | - |
| Transfer from tax group subsidiaries | **-** | 30,378 | **-** | 30,378 |
| Balance 30 June | **71,707** | 30,378 | **30,378** | 30,378 |

**High Court Decision**

On 20 July 2006 the High Court ruled in favour of Transurban in relation to the tax deductibility of the concession fees paid to the State of Victoria under the Melbourne CityLink Concession Deed. The case was heard by the High Court of Australia after the Australian Taxation Office appealed the unanimous judgement of the Full Court of the Federal Court in October 2004.

## 9. DISCONTINUED OPERATIONS

**Description**

On 28 February 2007 the Transurban Group began an active program to sell the Pocahontas Parkway ("Pocahontas") in Richmond, Virginia to a privately owned investment vehicle in which Transurban will be a stakeholder. On 27 June 2007 Transurban DRIVe Holdings LLC ("DRIVe") was incorporated as a wholly owned subsidiary of the Transurban Group with the view of immediate partial resale as the investment vehicle and owner of Pocahontas.

As at 30 June 2007 both Pocahontas and DRIVe are subsidiaries of the Transurban Group and are reported in this financial report as disposal groups held for sale and discontinued operations.

Pocahontas

*Financial performance and cash flow information*

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Revenue (note 5) | **19,819** | - | **-** | - |
| Other income (note 6) | **282** | - | **-** | - |
| Depreciation | **(8,824)** | - | **-** | - |
| Finance costs | **(32,797)** | - | **-** | - |
| Other expenses | **(5,419)** | - | **-** | - |
| Loss before income tax | **(26,939)** | - | **-** | - |
| Income tax expense | **(1,499)** | - | **-** | - |
| **Loss from discontinued operations** | **(28,438)** | - | **-** | - |
| Net cash (outflow) from operating activities | **(23,567)** | - | **-** | - |
| Net cash (outflow) from investing activities | **(672)** | - | **-** | - |
| Net cash inflow from financing activities | **17,752** | - | **-** | - |
| **Net (decrease) in cash generated by the discontinued operation** | **(6,487)** | - | **-** | - |

*The carrying amounts of assets and liabilities of Pocahontas are:*

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash | **39,293** | - | **-** | - |
| Trade receivables | **450** | - | **-** | - |
| Property, plant and equipment | **590** | - | **-** | - |
| Intangible assets | **573,089** | - | **-** | - |
| Deferred tax assets | **9,550** | - | **-** | - |
| **Total assets** | **622,972** | - | **-** | - |
| Other creditors | **(537)** | - | **-** | - |
| Borrowings | **(465,764)** | | | |
| Financial derivatives | **(4,447)** | - | **-** | - |
| Deferred tax liabilities | **(9,709)** | | | |
| **Total liabilities** | **(480,457)** | - | **-** | - |
| **Net assets** | **142,515** | - | **-** | - |

DRIVe

*Financial performance and cash flow information*

For the period from incorporation to 30 June 2007, DRIVe had no transactions.

*Carrying amounts of assets and liabilities*

At 30 June 2007, the carrying amount of assets and liabilities was zero.

## 10. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Cash at bank | **449,255** | 323,110 | **88** | 411 |
| Cash as per balance sheet | **449,255** | 323,110 | **88** | 411 |

**(a) Reconciliation of cash to cash collateral at the end of the year**

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash at bank - as above | **449,255** | 323,110 | **88** | 411 |
| Cash collateral, Infrastructure Loan Facility (note 1(s)) | **-** | 795,000 | **-** | - |
| Cash collateral, Infrastructure Note Facility (note 1(s)) | **-** | 454,000 | **-** | - |
| Cash collateral, Refinancing Infrastructure (note 1(s)) | **465,940** | 423,582 | **-** | - |
| Cash collateral, Infrastructure Bond (note 1(s)) | **-** | - | **-** | - |
| Cash held by asset held for sale | **39,293** | | | |
| Balance as per statement of cash flows | **954,488** | 1,995,692 | **88** | 411 |

**(b) Cash at bank and on hand**

These are interest bearing (refer note 11(e)).

**(c) Funds not for general use**

The amount shown in Cash at Bank includes $81.3 million not available for general use at 30 June 2007 (2006: $70.8 million). This comprises amounts required to be held under maintenance and funding reserves within CityLink concession deed, the Pocahontas Permit and Sydney Roads Group concession deeds.

## 11. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade receivables | **40,596** | 27,908 | **-** | - |
| Less: Provision for impairment | **(5,637)** | (2,769) | **-** | - |
| | **34,959** | 25,139 | **-** | - |
| Prepayments | **12,705** | 4,430 | **-** | - |
| Receivables from related parties | **-** | 2,330 | **6,658** | 6,598 |
| Other receivables | **14,418** | 9,661 | **989** | 28 |
| Infrastructure bond interest receivable | **109,795** | - | **-** | - |
| | **171,877** | 41,560 | **7,647** | 6,626 |

**(a) Impaired trade receivables**

The Group has recognised a loss of $1.4 million (2006 - $1.0 million) in respect of impaired trade receivables during the year ended 30 June 2007.

### (b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group including an amount receivable relating to a lease incentive provided under the operating lease for 505 Little Collins Street.

### (c) Infrastructure bond interest receivable

Infrastructure bond interest receivable represents accrued interest on a cash collateral account held with debt infrastructure bond lenders.

### (d) Fair values

The fair values and carrying values of receivables of the Group are the same.

### (e) Effective Interest rates

Information concerning the effective interest rate of current and non-current receivables, and held to maturity investments is set out in the tables below.

| 2007 | Floating interest rate $'000 | Fixed Interest Maturing in : 1 year or less $'000 | Over 1 to 2 yrs $'000 | Over 2 to 3 yrs $'000 | Over 3 to 4 yrs $'000 | Over 4 to 5 yrs $'000 | Over 5 yrs $'000 | Non interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 449,255 | - | - | - | - | - | - | - | 449,255 |
| Debtors | - | - | - | - | - | - | - | 62,082 | 62,082 |
| Term Loan Notes | - | - | - | - | - | - | 557,731 | - | 557,731 |
| Infrastructure bond interest | - | - | - | - | - | - | - | 109,795 | 109,795 |
| | 449,255 | - | - | - | - | - | 557,731 | 171,877 | 1,178,863 |
| Weighted average interest rate | 6.10% | - | - | - | - | - | 11.93% | | |

| 2006 | Floating interest rate $'000 | Fixed Interest Maturing in: 1 year or less $'000 | Over 1 to 2 yrs $'000 | Over 2 to 3 yrs $'000 | Over 3 to 4 yrs $'000 | Over 4 to 5 yrs $'000 | Over 5 yrs $'000 | Non interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 323,110 | - | - | - | - | - | - | - | 323,110 |
| Debtors | - | - | - | - | - | - | - | 39,230 | 39,230 |
| Debtors related party | - | - | - | - | - | - | - | 2,330 | 2,330 |
| Term loan notes | - | - | - | - | - | - | 469,767 | - | 469,767 |
| | 323,110 | - | - | - | - | - | 469,767 | 41,560 | 834,437 |
| Weighted average interest rate | 4.35% | - | - | - | - | - | 11.93% | | |

### (f) 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 receivables. Refer to note 2 for more information on the risk management policy of the Group.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 12. CURRENT ASSETS – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | | | | |
|---|---|---|---|---|
| At beginning of year | **-** | - | **-** | - |
| Adjusted on adoption of AASB 139 | **-** | 16,840 | **-** | - |
| Revaluation | **-** | 2,940 | **-** | - |
| Exercised | **-** | (19,780) | **-** | - |
| At end of year | **-** | - | **-** | - |

**Transition to AASB 139**

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Reporting Standards* to apply AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

For further information, please refer to the annual report for the year ended 30 June 2006.

## 13. NON-CURRENT ASSETS – RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Prepayments | **4,411** | 186 | **-** | - |
| Receivables from related parties | **-** | - | **34,492** | - |
| | **4,411** | 186 | **34,492** | - |

## 14. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | | | | |
|---|---|---|---|---|
| Interest in joint venture partnership and associates - Westlink M7 (note 41) | **-** | 15,732 | **-** | - |
| Interest in other associates - M5 (note 41) | **567,046** | - | **-** | - |
| Interest in other associates - Transtoll (note 41) | **636** | - | **-** | - |
| | **567,682** | 15,732 | **-** | - |

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

## 15. NON-CURRENT ASSETS – HELD-TO-MATURITY INVESTMENTS

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Investment in Term Loan Notes | **557,731** | 469,767 | **-** | - |
| | **557,731** | 469,767 | **-** | - |

### Investment in Term Loan Notes ("TLN")

On the construction completion of the WestLink M7 Motorway in December 2005, Transurban's Construction Phase Loan Notes ("CPLN") converted to TLN. These notes current and former state represent Transurban's funding contribution to the Westlink Motorway Partnership. The fixed maturity date of the TLN is the earlier of 34 years and the termination of the "Agreement to Lease" between the Roads and Traffic Authority of New South Wales and Westlink Motorway Limited.

On conversion the interest receivable on these notes increased to 11.93 per cent from 6.27 per cent. Any unpaid interest capitalises into additional TLN. During the year ended 30 June 2007 $61.1 million (2006 - $28.8 million) of interest was capitalised into additional TLN.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Interest rate swap contracts - cash flow hedges ((a) (i)) | **86,699** | 21,926 | **-** | - |
| Equity Swap ((a) (iv)) | **26,711** | - | **26,711** | - |
| Total non-current derivative financial instrument assets | **113,410** | 21,926 | **26,711** | - |
| **Non-current liabilities** | | | | |
| Interest rate swap contracts - cash flow hedges ((a) (i)) | **-** | 3,331 | **-** | - |
| Cross currency interest rate swap contracts - cash flow hedges ((a) (ii)) | **169,158** | 77,744 | **-** | - |
| Forward exchange contracts - cash flow hedges ((a) (iii)) | **34,215** | - | **-** | - |
| Total non current derivative financial instrument liabilities | **203,373** | 81,075 | **-** | - |
| | **(89,963)** | (59,149) | **26,711** | - |

**(a) Instruments used by the Group**

The Group is party to derivative financial instruments in the normal course of business. Financial instruments include interest and foreign exchange contracts entered into to hedge exposure in accordance with the financial risk management policies. (refer to note 2).

(i) Interest rate swap contracts - cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 6.82 per cent. It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 81 per cent (2006: 91 per cent) of long term debt excluding working capital facilities. The fixed interest rates range between 5.6 per cent and 6.24 per cent (2006: 5.6 per cent and 6.17 per cent) and the variable rates are the appropriate bank bill rate.

At 30 June 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Less than 1 year | **30,000** | - | **-** | - |
| 1- 2 years | **257,000** | - | **-** | - |
| 2 - 3 years | **506,625** | 132,000 | **-** | - |
| 3 - 4 years | **672,179** | - | **-** | - |
| 4 - 5 years | **-** | 672,179 | **-** | - |
| Greater than 5 years | **907,821** | 1,318,153 | **-** | - |
| | **2,373,625** | 2,122,332 | **-** | - |

The contracts require settlement of net interest receivable or payable. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in income immediately. In the year ended 30 June 2007 $nil (2006 - $132,648) was transferred to profit and loss.

(ii) Cross-currency interest rate swap contracts - cash flow hedges

The Group has made several U.S. Private Placements raising fixed rate debt. It is company policy to protect foreign currency facilities from exposure to unfavourable exchange rate movements. Accordingly, the entity has entered into cross-currency interest rate swap contracts under which it is obliged to receive foreign currency interest at fixed rates and to pay AUD interest at floating rates.

At 30 June 2007, the notional principal amounts and periods of expiry of the cross-currency interest rate swap contracts are as follows:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Greater than 5 years | **1,236,222** | 835,821 | **-** | - |
| | **1,236,222** | 835,821 | **-** | - |

These contracts are marked to market by comparing the contractual rate to the current market rate. As these contracts are hedging anticipated interest payments and principal, any unrealised gains and losses on the contracts, are deferred and will be recognised in the measurement of the underlying transaction provided the underlying transaction is still expected to occur as originally designated. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors.

(iii) Forward exchange contracts - cash flow hedges

The Transurban Group raised fixed rate USD debt through a U.S. Private Placement in November 2006. This placement was structured to be capital accretive for 5 years. In order to protect against exchange rate movements, the Company has entered into forward exchange contracts to sell US dollars.

The Group has the following forward exchange contracts outstanding at balance date (Australian dollar equivalents):

| **Buy US dollars** | **Sell Australian dollars** | | **Average exchange rate** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | | |
| Maturity | | | | |
| 4 - 5 years | **428,560** | - | **0.7138** | - |

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

(iv) Equity swap arrangement

The Group has entered into an equity swap arrangement with a counterparty whereby the Group is exposed to movements in the fair value of the underlying securities without having any rights to those securities. Under the agreement, the return on the underlying security is exchanged for a return based on a reference interest rate.

As at 30 June, the Group has equity swaps in place with a notional principal amount of $61.3 million maturing within one year.

The equity swaps are fair valued by comparing the initial price of the security on the date the swap was entered into to the final uncleared bid price on the valuation date. All changes in fair value are taken to the income statement immediately.

In the year ended 30 June 2007, income of $26.7 million (2006: $nil) was recognised.

(v) Net investment hedge

Transurban's investment in the Pocahontas Parkway acts as a natural hedge against exposure to foreign currency movements in the USD debt (US$148 million) raised in the November 2006 US Private Placement. Exchange differences arising on the revaluation of the USD debt are recognised in profit or loss in the separate financial report of Transurban Finance Company. In the consolidated financial report, such exchange differences are recognised initially in a separate component of equity and will be recognised in the profit or loss on disposal of the net investment.

As at 30 June 2007, the Group has deferred $18.9 million in gains.

**(b) Credit risk exposure**

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity.

The Group continually monitors the credit ratings and credit exposure of counterparties.

**(c) Interest rate risk exposure**

Refer to note 26 for the Group's exposure to interest rate risk on interest rate swaps.

**(d) Foreign exchange risk exposure**

The Group's derivative financial instruments currently in place cover 100 per cent of the foreign currency facilities.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 17. NON-CURRENT ASSETS – AVAILABLE FOR SALE FINANCIAL ASSETS

| | | | | |
|---|---|---|---|---|
| Investment in listed securities | **7,910** | - | **7,910** | - |
| | **7,910** | - | **7,910** | - |

**Listed securities**

During the year, the Transurban Group acquired securities on market in a listed entity. The average price per security was $1.26.

## 18. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

| | | | | |
|---|---|---|---|---|
| Investment in subsidiaries (refer note 40) | **-** | - | **1,372,694** | 124,262 |
| | **-** | - | **1,372,694** | 124,262 |

The movement in the investment in subsidiaries in the current year is attributable to the acquisition of Sydney Roads Group ($1,231 million) and the transfer of current tax payable.

As there is no tax funding arrangement, current tax payable is assumed by the tax head entity and recognised as an increase in subsidiary investments.

## 19. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | CityLink | M2 | Equipment & Fittings | Buildings | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated** | | | | | |
| **At 1 July 2005** | | | | | |
| Cost or fair value | 3,937,269 | 2,446,819 | 128,050 | - | 6,512,138 |
| Accumulated depreciation | (500,031) | (23,161) | (42,132) | - | (565,324) |
| Net book amount | 3,437,238 | 2,423,658 | 85,918 | - | 5,946,814 |
| **Year ended 30 June 2006** | | | | | |
| Opening net book balance | 3,437,238 | 2,423,658 | 85,918 | - | 5,946,814 |
| Additions | 11,000 | 10,014 | 51,456 | - | 72,470 |
| Disposals | (297) | - | - | - | (297) |
| Depreciation/amortisation charge | (140,539) | (90,956) | (26,570) | - | (258,065) |
| Closing net book amount | 3,307,402 | 2,342,716 | 110,804 | - | 5,760,922 |
| **At 30 June 2006** | | | | | |
| Cost or fair value | 3,947,972 | 2,456,833 | 179,506 | - | 6,584,311 |
| Accumulated depreciation | (640,570) | (114,117) | (68,702) | - | (823,389) |
| Net book amount | 3,307,402 | 2,342,716 | 110,804 | - | 5,760,922 |
| **Year ended 30 June 2007** | | | | | |
| Opening net book balance | **3,307,402** | **2,342,716** | **110,804** | **-** | **5,760,922** |
| Additions | **-** | **-** | **41,868** | **-** | **41,868** |
| Acquisition of subsidiary | **-** | **-** | **7,753** | **274** | **8,027** |
| Assets classified as held for sale | **-** | **-** | **(590)** | **-** | **(590)** |
| Disposals | **(101)** | **(1,079)** | **(250)** | **-** | **(1,430)** |
| Depreciation/amortisation charge | **(140,074)** | **(94,758)** | **(34,801)** | **(11)** | **(269,644)** |
| Closing net book amount | **3,167,227** | **2,246,879** | **124,784** | **263** | **5,539,153** |
| **At 30 June 2007** | | | | | |
| Cost or fair value | **3,947,871** | **2,455,754** | **228,287** | **274** | **6,632,186** |
| Accumulated depreciation | **(780,644)** | **(208,875)** | **(103,503)** | **(11)** | **(1,093,033)** |
| Net book amount | **3,167,227** | **2,246,879** | **124,784** | **263** | **5,539,153** |

### (a) Non-current assets pledged as security

Refer to note 26 for information on non-current assets pledged as security by the Group.

## 20. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **The balance comprises temporary differences attributable to:** | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Accrued expenses | **2,665** | 186 | **196** | 3 |
| Provisions | **3,882** | 7,273 | **128** | 194 |
| Borrowing costs | **2,937** | - | **-** | - |
| Prior year losses | **231,701** | 223,265 | **221,808** | 221,284 |
| Current year losses | **22,498** | 497 | **805** | 497 |
| Fixed assets | **376** | 1,921 | **-** | - |
| Other | **7,640** | 3,119 | **-** | - |
| Transfer to discontinued operations | **(8,563)** | - | **-** | - |
| | **263,136** | 236,261 | **222,937** | 221,978 |
| *Amounts recognised directly in equity* | | | | |
| Cash flow hedges | **61,012** | 24,309 | **-** | - |
| Transfer to discontinued operations | **(987)** | - | **-** | - |
| | **60,025** | 24,309 | **-** | - |
| *Other* | | | | |
| Acquisition of subsidiary | **4,132** | - | **-** | - |
| | **4,132** | - | **-** | - |
| Total | **327,293** | 260,570 | **222,937** | 221,978 |
| Deferred tax assets to be recovered after more than 12 months | **300,951** | 251,587 | **222,614** | 221,781 |
| Deferred tax assets to be recovered within 12 months | **26,342** | 8,983 | **323** | 197 |
| | **327,293** | 260,570 | **222,937** | 221,978 |

| **Movements - Consolidated** | **Tax losses $'000** | **Provisions $'000** | **Fixed assets $'000** | **Borrowing costs $'000** | **Derivatives $'000** | **Accrued Expenses $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2005** | 236,852 | 1,004 | 5,136 | 38 | - | 1,244 | 11,122 | 255,396 |
| Under/(over) adjustment | 1,108 | 6,269 | (3,215) | - | - | (1,058) | 5,544 | 8,648 |
| Credited/(charge) to income statement | (14,198) | - | - | (38) | - | - | - | (14,236) |
| Credit/(charge) to equity for cash flow hedge | - | - | - | - | 23,323 | - | 985 | 24,308 |
| M2 bonus payment | - | - | - | - | - | - | (10,950) | (10,950) |
| Other | - | - | - | - | - | - | (2,596) | (2,596) |
| Tax losses utilised | - | - | - | - | - | - | - | 0 |
| **At 30 June 2006** | **223,762** | **7,273** | **1,921** | **-** | **23,323** | **186** | **4,105** | **260,570** |
| Under/(over) adjustment | 11,210 | - | - | - | - | - | - | 11,210 |
| Credited/(charge) to income statement | 63,316 | (3,391) | (1,545) | 2,937 | - | 2,479 | (6,224) | 57,572 |
| Credit/(charge) to equity | - | - | - | - | 37,689 | - | (987) | 36,702 |
| Acquisition of subsidiary | - | - | - | - | - | - | 14,878 | 14,878 |
| Tax losses written off | (13,031) | - | - | - | - | - | - | (13,031) |
| Tax losses utilised | (31,058) | - | - | - | - | - | - | (31,058) |
| Transfer to discountinued operations | (9,544) | - | - | - | - | - | (6) | (9,550) |
| **At 30 June 2007** | **244,655** | **3,882** | **376** | **2,937** | **61,012** | **2,665** | **11,766** | **327,293** |

| **Movements - Parent** | **Tax losses $'000** | **Employee benefits $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|
| **At 1 July 2005** | 374 | 178 | 7 | 559 |
| Under/(over) adjustment | 8 | - | (25) | (17) |
| Credited/(charge) to income statement | 497 | 15 | (4) | 508 |
| Transfer from tax group subsidiaries [(1)] | 232,836 | - | - | 232,836 |
| Tax losses utilised | (11,908) | - | - | (11,908) |
| **At 30 June 2006** | **221,807** | **193** | **(22)** | **221,978** |
| Under/(over) adjustment | - | - | 25 | 25 |
| Credited/(charge) to income statement | 2,151 | (67) | 195 | 2,279 |
| Transfer from tax group subsidiaries [(1)] | 18,389 | - | - | 18,389 |
| Tax losses utilised | (19,735) | - | - | (19,735) |
| **At 30 June 2007** | **222,612** | **126** | **198** | **222,936** |

## 21. NON-CURRENT ASSETS – INTANGIBLE ASSET

| | Development costs $'000 | Goodwill $'000 | Pocahontas Permit $'000 | CityLink $'000 | M1 Eastern Distributor $'000 | M4 Motorway $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | |
| **At 1 July 2005** | | | | | | | |
| Cost | 14,543 | 110,292 | - | - | - | - | 124,835 |
| Impairment | (9,805) | - | - | - | - | - | (9,805) |
| Net book amount | 4,738 | 110,292 | - | - | - | - | 115,030 |
| **Year ended 30 June 2006** | | | | | | | |
| Opening net book amount | 4,738 | 110,292 | - | - | - | - | 115,030 |
| Additions | 15,895 | 11,508 | 664,451 | - | - | - | 691,854 |
| Impairment | (1,949) | - | - | - | - | - | (1,949) |
| Closing net book amount | 18,684 | 121,800 | 664,451 | - | - | - | 804,935 |
| **At 30 June 2006** | | | | | | | |
| Cost | 30,438 | 121,800 | 664,451 | - | - | - | 816,689 |
| Impairment | (11,754) | - | - | - | - | - | (11,754) |
| Net book amount | 18,684 | 121,800 | 664,451 | - | - | - | 804,935 |

| | Development costs $'000 | Goodwill $'000 | Pocahontas Permit $'000 | CityLink $'000 | M1 Eastern Distributor $'000 | M4 Motorway $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2007** | | | | | | | |
| Opening net book amount | **18,684** | **121,800** | **664,451** | **-** | **-** | **-** | **804,935** |
| Acquisition of subsidiary | **-** | **111,103** | **-** | **-** | **2,496,052** | **197,476** | **2,804,631** |
| Additions | **23,945** | **-** | **-** | **330,621** | **-** | **-** | **354,566** |
| Impairment | **(8,120)** | **-** | **-** | **-** | **-** | **-** | **(8,120)** |
| Translation adjustment | **-** | **-** | **(82,538)** | **-** | **-** | **-** | **(82,538)** |
| Reclassification as held for sale | **-** | **-** | **(573,089)** | **-** | **-** | **-** | **(573,089)** |
| Amortisation charge | **-** | **-** | **(8,824)** | **-** | **(16,142)** | **(16,965)** | **(41,931)** |
| Closing net book amount | **34,509** | **232,903** | **-** | **330,621** | **2,479,910** | **180,511** | **3,258,454** |
| **At 30 June 2007** | | | | | | | |
| Cost | **54,383** | **232,903** | **664,451** | **330,621** | **2,496,052** | **197,476** | **3,975,886** |
| Accumulated amortisation | **-** | **-** | **(8,824)** | **-** | **(16,142)** | **(16,965)** | **(41,931)** |
| Impairment | **(18,237)** | **-** | **-** | **-** | **-** | **-** | **(18,237)** |
| Provision for impairment | **(1,637)** | **-** | **-** | **-** | **-** | **-** | **(1,637)** |
| Translation adjustment | **-** | **-** | **(82,538)** | **-** | **-** | **-** | **(82,538)** |
| Reclassification as held for sale | **-** | **-** | **(573,089)** | **-** | **-** | **-** | **(573,089)** |
| Net book amount | **34,509** | **232,903** | **-** | **330,621** | **2,479,910** | **180,511** | **3,258,454** |

### Intangible assets

Development Costs

Capitalised development costs are an internally generated intangible asset.

Goodwill

The opening goodwill balance $121.8 million has arisen on the acquisition of Hills Motorway Group ($84.7 million) and Tollaust Pty Limited ($37.0 million) in prior periods. The addition in the period to 30 June 2007 has arisen on the acquisition of Sydney Roads Group (refer note 39). The goodwill balances in relation to the acquisitions of Tollaust Pty Limited and the Sydney Roads Group represent synergies achieved within the operating business units.

Pocahontas Permit

On 29 June 2006, the Transurban Group and the Commonwealth of Virginia reached financial close on a Comprehensive Agreement granting Transurban a 99 year concession for the Pocahontas Parkway in Virginia, USA . The cost of acquiring the 99 year concession was $664.5 million. As at 30 June 2007, the Pocahontas Parkway has been classified within current assets – assets of disposal group held for sale.

CityLink upgrade

During the year Transurban signed an agreement with the State of Victoria and VicRoads to jointly funds upgrades and improvements to 75 kilometres of the West Gate – CityLink – Monash Freeway corridor. On initial recognition of the agreement an intangible asset was recognised and represents future economic benefits arising from increased toll revenue as a result of the increased traffic flow from the upgrades.

M1 Eastern Distributor

Resulting from the acqusition of Sydney Roads Group, Transurban holds an investment of 71.35 per cent in the M1 Eastern Distributor ("ED") tollway in Sydney via the concessionaire Airport Motorway Group. The ED opened in year 1999 and the Airport Motorway Group holds the legal right to operate the ED until 24 July 2048.

M4 Motorway

Resulting from the acquisition of Sydney Roads Group, Transurban holds an investment of 50.05 per cent in the M4 Motorway in Sydney via the concessionaire Statewide Roads. The M4 Motorway opened in year 1992 and Statewide Roads holds the legal right to operate the M4 until 15 February 2010.

### Impairment testing of Goodwill and cash generating units

Impairment testing

The Group tests whether goodwill and cash generating units have suffered any impairments, in accordance with the accounting policy stated in note 1(h). The recoverable amount of cash-generating units has been determined based on value-in-use calculations. These calculations require the use of assumptions regarding traffic flows, discount rates, growth rates and other factors affecting operating activities of the cash generating units.

Key assumptions used for value-in-use calculations

The Group makes assumptions in calculating the value-in-use of its cash generating units. These include assumptions around expected traffic flows and forecast operational costs. In performing the calculations the Group has applied discount rates, representing the weighted cost of capital applicable to the projects depending on their risk nature, to discount the forecast future attributable cash flows. In determining furure cash flows, the group has also applied rates of growth to underlying operating assumptions to reflect the expected performance of the assets beyond the budget period in accordance with the respectve concessions.

**Impairment testing of development costs**

The impairment charge represents business development projects which were either unsuccessful bids or projects which are no longer considered probable that the asset will generate economic benefits. The costs associated with these business opportunities were expensed in the income statement during the period.

Business development costs are capitalised when:

- the outcome of the project has been determined and the outcome will result in the generation of future economic benefits; or
- the outcome of the project has not been determined but it is considered reasonably probable that the outcome, when determined, will result in future economic benefits.

The carrying value of development costs is reviewed for impairment when an indicator of impairment arises. For example, Transurban decides to withdraw from a project tender or is not selected as the preferred applicant.

## 22. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade payables | **28,472** | 15,837 | **255** | 129 |
| CARS coupon payment | **-** | 13,924 | **-** | - |
| Infrastructure bond interest payable | **79,601** | - | **-** | - |
| Other payables | **76,652** | 48,864 | **655** | 10 |
| | **184,725** | 78,625 | **910** | 139 |

The coupon payment represents the interest payment due to holders of Convertible Adjusting Rate Securities ("CARS"). The distribution on these securities of 7.0 per cent for the period 1 January 2006 to 30 June 2006 totalling $13.9 million has been charged to the income statement as a borrowing cost due to the CARS being classified as a liability. This coupon was paid to CARS holders on 31 July 2006. All remaining CARS converted to Transurban Group securities on 14 April 2007, accordingly there is no provision for a CARS coupon payment for the period ended 30 June 2007.

**Other payables**

Other payables represents accruals for operating expenses and interest on the Group's borrowings.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **23. CURRENT LIABILITIES – BORROWINGS** | | | | |
| **Secured** | | | | |
| Infrastructure Loan facility | **-** | 795,000 | **-** | - |
| Less: Cash collateral (note 1(s)) | **-** | (795,000) | **-** | - |
| Infrastructure Note facility | **-** | 454,000 | **-** | - |
| Less: Cash collateral (note 1(s)) | **-** | (454,000) | **-** | - |
| Bridging Facility | **-** | 265,142 | **-** | - |
| Working Capital Facilities | **355,000** | - | **-** | - |
| Secured Loans - Statewide Roads | **28,300** | - | **-** | - |
| | **383,300** | 265,142 | **-** | - |

**a) Infrastructure Loan Facility**

$795.0 million facility certified by the Development Allowance Authority to qualify for concessional tax treatment under Division 16L of the Income Tax Legislation. 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 was repaid from the cash collateral on 15 April 2007.

**b) Infrastructure Note Facility**

$454.0 million facility certified by the Development Allowance Authority to qualify for concessional tax treatment under the Income Tax Legislation. 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 note facility was repaid from the cash collateral on 15 April 2007.

**c) Set-off of Assets and Liabilities**

A legal right of set-off existed in respect of the specific cash deposits of $795.0 million, representing collateralisation of liabilities under the Infrastructure Loan facility and $454.0 million, representing collateralisation of liabilities under the Infrastructure Note facility.

**d) Bridging Facility**

Transurban entered into a USD 200 million Bridge Facility on 16 June 2006 to finance the purchase of the Pocahontas Parkway Permit. The permit was partly funded from the Group’s dividend reinvestment plan with the Bridge required to cover the period up to the Group’s final distribution for 2006, payable in August 2006. The Bridge was repaid on 14th November 2006 with funds raised from the November 2006 U.S. Private Placement. The interest rate applicable to the bridging facility was 5.5 per cent.

**e) Working Capital Facilities**

The following facilities are due to mature within the next 12 months:

- $150.0 million facility which is for a term of 3 years from 18 March 2005. At 30 June 2007, this facility was fully drawn-down.
- $255.0 million facility which is for a term of 3 years from 27 June 2005. At 30 June 2007, $205 million of the Tranche A facility was drawn-down.

The $150.0 million and $255.0 million facilities are secured by a first ranking charge over the cash flows of the Transurban Group. The interest rate applicable to the working capital facilities is 6.9 per cent (2006: 6.4 per cent).

**f) Secured loan – Statewide Roads**

$50.4 million bank facility maturing in February 2009. The facility was fully utilised at 30 June 2007. The loans are secured by registered mortgages over all the assets of Statewide Roads (M4) Pty Limited and SWR Properties Pty Limited. This facility is repayable quarterly with the final instalment due 15 February 2009. The interest rate applicable to the term debt is 7.0 per cent (2006: N/A). $28.3 million of the facility will be settled within the next twelve months and is classified as a current interest-bearing liability.

**g) Interest rate risk exposure**

Details of the Group's exposure to interest rate changes on Group borrowings are set out in note 26.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 24. CURRENT LIABILITIES – NON-INTEREST BEARING LIABILITIES

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Prepaid tolls | **43,721** | 39,054 | **-** | - |
| Unearned income | **6,382** | 151 | **-** | - |
| Advances from related parties | **2,744** | - | **1,670** | 2,609 |
| West Gate-CityLink-Monash upgrade | **384,526** | - | **-** | - |
| Other | **581** | - | **-** | - |
| | **437,954** | 39,205 | **1,670** | 2,609 |

Refer to note 28 for information on the West-Gate-CityLink-Monash upgrade.

## 25. CURRENT LIABILITIES – PROVISIONS

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Employee entitlements | **14,533** | 22,045 | **423** | 645 |
| Distribution to security holders | **293,862** | 207,070 | **-** | - |
| SRG minorities distribution | **35,806** | - | **-** | - |
| | **344,201** | 229,115 | **423** | 645 |

## 26. NON-CURRENT LIABILITIES – BORROWINGS

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Secured** | | | | |
| Refinancing Infrastructure Bonds | **465,940** | 423,582 | **-** | - |
| Less: Cash collateral (note 1s) | **(465,940)** | (423,582) | **-** | - |
| Term Debt | **440,000** | 440,000 | **-** | - |
| U.S. Private Placement | **1,228,447** | 911,037 | **-** | - |
| Working Capital Facilities | **50,843** | 573,232 | **-** | - |
| Capital Markets Debt | **1,032,622** | 733,370 | **-** | - |
| Convertible Adjusting Rate Securities | **-** | 361,777 | **-** | - |
| Pocahontas debt | **-** | 530,456 | **-** | - |
| Secured Loans - Statewide Roads | **22,102** | - | **-** | - |
| Airport Motorway Trust Term Debt | **515,500** | - | **-** | - |
| M4/M5 Securitisation Facility | **125,000** | - | **-** | - |
| ED Securitisation Facility | **150,000** | - | **-** | - |
| Advances from related parties | **900** | - | **1,232,762** | 36,190 |
| | **3,565,414** | 3,549,872 | **1,232,762** | 36,190 |

**Set-off of Assets and Liabilities**

A legal right of set-off exists in respect of the specific cash deposits of $465.9 million representing collateralisation of the Refinancing Infrastructure Bonds.

**Financing Arrangements and Credit Facilities**

Credit facilities are provided as part of the overall debt funding structure of the Transurban Group.

Details of each facility are as follows:-

**a) Refinancing Infrastructure Bonds**

$465.9 million facility certified by the Development Allowance Authority to qualify for concessional tax treatment under the Income Tax Legislation. The bonds are secured by cash collateral equal to the amount of the loan which is set off against the loan facility, the principal of the refinancing bonds will be repaid from the cash collateral on 31 December 2009. The facility was fully drawn down as at 30 June 2007.

**b) Term Debt**

$440.0 million bank facility, maturing in June 2009. The facility was fully utilised at 30 June 2007. This facility is fully secured against the respective rights of Hills Motorway Ltd and Hills Motorway Trust in the M2 Motorway and their assets. The interest rate applicable to the term debt is 7.0 per cent (2006: 6.5 per cent).

### c) U.S. Private Placement

The USD Bridge Facility (refer note 23) and a component of the Working Capital Facilities were replaced with a US Private Placement consisting of long term debt facilities on 14 November 2006. The placement consists of four tranches with maturities ranging from November 2016 to November 2026 and supplements two previous placements.

The composition of the three US Private Placements is outlined below:

| Fixed Interest Rate | Rate | USD $'000 | AUD $'000 | Maturity |
|---|---|---|---|---|
| Dec 04 - Tranche A | 5.02% | 100,000 | 117,827 | Dec 2014 |
| Dec 04 - Tranche B | 5.17% | 38,900 | 45,835 | Dec 2016 |
| Dec 04 - Tranche C | 5.47% | 108,600 | 127,960 | Dec 2019 |
| Aug 05 - Tranche A | 5.04% | 98,000 | 115,471 | Aug 2015 |
| Aug 05 - Tranche B | 5.19% | 125,500 | 147,873 | Aug 2017 |
| Aug 05 - Tranche C | 5.35% | 156,500 | 184,400 | Aug 2020 |
| Nov 06 - Tranche A | 5.71% | 44,228 | 52,112 | Nov 2016 |
| Nov 06 - Tranche B | 5.86% | 139,985 | 164,940 | Nov 2018 |
| Nov 06 - Tranche C | 5.95% | 124,600 | 146,812 | Nov 2021 |
| Nov 06 - Tranche D | 6.06% | 51,515 | 60,701 | Nov 2026 |
| | | 987,828 | 1,163,931 | |
| **Floating Interest Rate** | | | | |
| Dec 04 - Tranche D | 7.30% (2006: 6.7%) | - | 72,000 | Dec 2019 |
| | | - | 72,000 | |
| **Total US Private Placement** | | 987,828 | 1,235,931 | |
| Deferred borrowing costs | | - | (7,484) | |
| **TOTAL** | | 987,828 | 1,228,447 | |

These facilities are secured by a first ranking charge over the cash flows of the Group.

### d) Working Capital Facilities

The following facilities are in place.

- $195.0 million facility which is for a term of 5 years. At 30 June 2007, $32 million of the facility was drawn-down.
- $30.0 million facility which is available for use until June 2009. At 30 June 2007, $19.0 million of this facility was drawn-down.

Deferred borrowing cost of $0.2 million is included in the Working Capital Facilities.

The $195.0 million facility is secured by a first ranking charge over the cash flows of the Transurban Group. The interest rate applicable to the working capital facilities is 6.9 per cent (2006: 6.4 per cent).

### e) Capital Markets Debt

Comprises credit wrapped floating bonds issued by Transurban Finance Company with terms of 10 years ($300 million) and 12 years ($300 million) from November 2005 and non-credit wrapped fixed rate Medium Term Notes of $150 million raised in December 2004. An additional $300 million was raised in September 2006 through the issuance of non-credit wrapped fixed ($200 million) and floating ($100 million) rate bonds with terms of 5 years. These bonds refinanced existing Working Capital Facilities.

These facilities are secured by a first ranking charge over the cash flows of the Group.

| | Maturing 2009 $'000 | Maturing 2011 $'000 | Maturing 2016 $'000 | Maturing 2018 $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Fixed interest rate** | | | | | |
| Non-credit wrapped | 150,000 | 200,000 | - | - | 350,000 |
| | 150,000 | 200,000 | - | - | 350,000 |
| **Floating interest rate** | | | | | |
| Non-credit wrapped | - | 100,000 | - | - | 100,000 |
| Credit wrapped | - | - | 300,000 | 300,000 | 600,000 |
| | - | 100,000 | 300,000 | 300,000 | 700,000 |
| **Total Capital Markets Debt** | 150,000 | 300,000 | 300,000 | 300,000 | 1,050,000 |
| Deferred borrowing costs | - | - | - | - | (17,378) |
| **TOTAL** | 150,000 | 300,000 | 300,000 | 300,000 | 1,032,622 |

The interest rates applicable to the Capital Market Debt are detailed in the table below. Comparative numbers are indicated in parenthesis.

| | Maturing 2009 per cent | Maturing 2011 per cent | Maturing 2016 per cent | Maturing 2018 per cent |
|---|---|---|---|---|
| **Fixed interest rate** | | | | |
| Non-credit wrapped | 6.0 (6.0) | 6.5 (N/A) | - | - |
| **Floating interest rate** | | | | |
| Non-credit wrapped | - | 6.9 (N/A) | - | - |
| Credit wrapped | - | - | 6.7 (6.2) | 6.7 (6.2) |

### f) Convertible Adjusting Rate Securities

$430.0 million was raised in April 2003 via the issue of 4.3 million CARS. Semi-annual interest was paid at the fixed rate of 7 per cent per annum until the first re-set date on 14 April 2007. The Group has exercised its right in accordance with clause 4 of the Collateral Terms of the CARS Constitution to convert all remaining CARS holdings into Transurban Group Securities, and in doing so, all remaining CARS were cancelled. A pro-rated CARS distribution for the period 1 January 2007 to 16 April 2007 was paid on 16 May 2007.

Reconciliation of the movement in the CARS liability.

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Balance at 1 July | **373,734** | 430,000 | **-** | - |
| Conversion on 31 December 2005 at the rate of 17.0679 stapled securities | **-** | (28,871) | **-** | - |
| Conversion on 30 June 2006 at the rate of 17.4966 stapled securities | **-** | (27,395) | **-** | - |
| Conversion on 31 December 2006 at the rate of 17.4966 stapled securities | **(1,832)** | - | **-** | - |
| Conversion on 2 January 2007 at the rate of 17.4966 stapled securities | **(185,901)** | - | **-** | - |
| Conversion on 16 April 2007 at the rate of 17.4966 stapled securities | **(186,001)** | - | **-** | - |
| Balance at 30 June | **-** | 373,734 | **-** | - |
| Deferred borrowing costs | **-** | (11,957) | **-** | - |
| **Total** | **-** | 361,777 | **-** | - |

### g) ED Securitisation Facility

SRG has in place a $150 million securitisation facility over the distributions received from the ED. At 30 June 2007, this facility was fully drawn.

The Facility is interest only and is repayable in full on 1 November 2009. Interest is payable at a margin over the bank bill swap rate and the margin payable can vary from 0.70 per cent to 1.50 per cent, depending upon certain interest cover ratios. As required under the ED Securitisation Facility, interest rate hedging has been put in place for 80 per cent of the principal amount for the term of the facility.

### h) Airport Motorway Trust Term Debt

$515.5 million bank facility, maturing in June 2009. The facility was fully utilised at 30 June 2007. This facility is non-recourse to the Group. The interest rate applicable to the term debt is 6.8 per cent.

### i) Secured loan – Statewide Roads

$50.4 million bank facility maturing in February 2009. The facility was fully utilised at 30 June 2007. The loans are secured by registered mortgages over all the assets of Statewide Roads (M4) Pty Limited and SWR Properties Pty Limited. This facility is repayable quarterly with the final instalment due 15 February 2009. The interest rate applicable to the term debt is 7.0 per cent (2006: N/A). $22.1 million of the facility is classified as a non-current interest-bearing liability.

### j) M4/M5 Securitisation Facility

SRG has in place a $155.0 million securitisation facility over the distributions received from the M5 and M4. At 30 June 2007, $125.0 million of this facility was drawn.

The Facility is interest only and is repayable in full on 31 December 2008. Interest is payable at a margin over the bank bill swap rate and the margin payable can vary from 0.65 per cent to 1.45 per cent, depending upon certain interest cover ratios. As required under the Securitisation Facility, interest rate hedging has been put in place for 100 per cent of the $125.0 million drawn down for the term of the facility.

### k) Pocahontas debt – classified as liabilities directly associated with assets of a disposal group as held for sale

In the prior period, the Pocahontas debt was classified as non-current interest bearing liabilities. They have been reclassified in the current year as held for sale.

| | USD $'000 | AUD $'000 | Maturity |
|---|---|---|---|
| **Floating Interest Rate** | | | |
| Tranche A | 305,700 | 360,197 | Jun 2036 |
| Tranche B | 93,860 | 110,593 | Jun 2036 |
| **Total Pocahontas Debt** | 399,560 | 470,790 | |
| Deferred borrowing costs | | (5,026) | |
| **TOTAL** | | 465,764 | |

Tranche B includes a committed but undrawn amount of USD 8.4 million.

### l) Utilisation of borrowing facilities

Details of the utilisation of borrowing facilities are as follows:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Loans** | | | | |
| Total facilities | **4,698,317** | 4,708,143 | **-** | - |
| Used at balance date | **4,414,478** | 4,636,481 | **-** | - |
| **Unused at balance date** | **283,839** | 71,662 | **-** | - |

The unused balance represents undrawn amounts from the working capital, Pocahontas Tranche B, M4/M5 Securitisation facilities and a $20.0 million Letter of Credit.

### m) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

| 2007 | Floating interest rate $'000 | Fixed Interest Maturing in: 1 year or less $'000 | Over 1 to 2 yrs $'000 | Over 2 to 3 yrs $'000 | Over 3 to 4 yrs $'000 | Over 4 to 5 yrs $'000 | Over 5 yrs $'000 | Non interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Creditors | - | - | - | - | - | - | - | 184,725 | 184,725 |
| Prepaid tolls | - | - | - | - | - | - | - | 43,721 | 43,721 |
| Monash-CityLink-Westgate upgrade | - | - | - | - | - | - | - | 554,714 | 554,714 |
| Concession Notes - M1 | - | - | - | - | - | - | - | 16,997 | 16,997 |
| Land Transport Notes | - | - | - | - | - | - | - | 449 | 449 |
| Promissory Notes | - | - | - | - | - | - | - | 11,645 | 11,645 |
| Term Debt | 440,000 | - | - | - | - | - | - | - | 440,000 |
| Working Capital Facilities | 405,843 | - | - | - | - | - | - | - | 405,843 |
| Capital Markets Debt | 682,622 | - | - | 150,000 | - | 200,000 | - | - | 1,032,622 |
| US Private Placement | 72,000 | - | - | - | - | - | 1,156,447 | - | 1,228,447 |
| Secured Loans - Statewide Roads | 50,402 | - | - | - | - | - | - | - | 50,402 |
| Airport Motorway Trust Term Debt | 515,500 | - | - | - | - | - | - | - | 515,500 |
| M5/M4 Securitisation Facility | 125,000 | - | - | - | - | - | - | - | 125,000 |
| ED Securitisation Facility | 150,000 | - | - | - | - | - | - | - | 150,000 |
| Advances from related parties | 900 | - | - | - | - | - | - | 2,744 | 3,644 |
| Cross-currency interest rate swaps | 1,236,222 | - | - | - | - | - | (1,236,222) | | - |
| Infrastructure loan facility | - | - | - | 465,940 | - | - | - | - | 465,940 |
| Cash collateral | - | - | - | (465,940) | - | - | - | - | (465,940) |
| Interest rate swaps | (2,373,625) | 30,000 | 257,000 | 506,625 | 672,179 | | 907,821 | | - |
| | 1,304,864 | 30,000 | 257,000 | 656,625 | 672,179 | 200,000 | 828,046 | 814,995 | 4,763,709 |
| Weighted average interest rate | 6.84% | 5.77% | 5.89% | 9.80% | 6.12% | 6.50% | 6.06% | | |

| **2006** | **Floating interest rate $'000** | **Fixed Interest Maturing in:** 1 year or less $'000 | **Over 1 to 2 yrs $'000** | **Over 2 to 3 yrs $'000** | **Over 3 to 4 yrs $'000** | **Over 4 to 5 yrs $'000** | **Over 5 yrs $'000** | **Non interest bearing $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|---|---|
| Creditors | - | - | - | - | - | - | - | 78,625 | 78,625 |
| Prepaid tolls | - | - | - | - | - | - | - | 39,054 | 39,054 |
| Land Transport Notes | - | - | - | - | - | - | - | 422 | 422 |
| Concession Notes | - | - | - | - | - | - | - | 201,766 | 201,766 |
| Promissory Notes | - | - | - | - | - | - | - | 11,711 | 11,711 |
| Term Debt | 440,000 | - | - | - | - | - | - | - | 440,000 |
| Working Capital Facilities | 573,232 | - | - | - | - | - | - | - | 573,232 |
| Capital Markets Debt | 583,370 | - | - | - | 150,000 | - | - | - | 733,370 |
| US Private Placement | 72,000 | - | - | - | - | - | 839,037 | - | 911,037 |
| Bridging Facility | 265,142 | - | - | - | - | - | - | - | 265,142 |
| Pocahontas debt | 530,456 | - | - | - | - | - | - | - | 530,456 |
| Cross-currency interest rate swaps | 835,821 | - | - | - | - | - | (835,821) | - | - |
| Infrastructure loan facility | - | 1,249,000 | - | - | 423,582 | - | - | - | 1,672,582 |
| Cash collateral | - | (1,249,000) | - | - | (423,582) | - | - | - | (1,672,582) |
| CARS | - | | - | - | - | - | 361,777 | - | 361,777 |
| Interest rate swaps | (2,122,332) | - | - | - | 132,000 | 672,179 | 1,318,153 | - | - |
| | 1,177,689 | - | - | - | 282,000 | 672,179 | 1,683,146 | 331,578 | 4,146,592 |
| Weighted average interest rate | 6.10% | 4.14% | - | - | 5.81% | 6.08% | 6.22% | | |

## Fair values

The fair values and carrying values of financial assets and liabilities brought to account at balance date are the same.

## 27. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **The balance comprises temporary differences attributable to:** | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Interest receivable | **33,056** | 1,815 | **-** | 5 |
| Unrealised gain | **14,117** | - | **7,672** | - |
| Fixed assets | **1,072,235** | 446,875 | **51** | - |
| Prepayments | **11,690** | 116 | **-** | - |
| Concession Fees and Promissory Notes | **268,811** | 191,479 | **-** | - |
| Other | **-** | 1,819 | **-** | - |
| Transfer to discontinued operations | **(9,709)** | - | **-** | - |
| | **1,390,200** | 642,104 | **7,723** | 5 |
| *Amounts recognised directly in equity* | | | | |
| Cash flow hedges | **58,798** | 5,676 | **-** | - |
| | **58,798** | 5,676 | **-** | - |
| *Other* | | | | |
| Uplift on acquisition | **326,470** | 171,021 | **-** | - |
| Market value uplift on CityLink depreciable assets on tax consolidation | **-** | (34,200) | **-** | - |
| | **326,470** | 136,821 | **-** | - |
| Total | **1,775,468** | 784,601 | **7,723** | 5 |
| Deferred tax liabilities to be settled after more than 12 months | **1,658,610** | 782,670 | **51** | - |
| Deferred tax liabilities to be settled within 12 months | **116,858** | 1,931 | **7,672** | 5 |
| | **1,775,468** | 784,601 | **7,723** | 5 |

| **Movements - Consolidated** | **Fixed assets $'000** | **Deferred revenue $'000** | **Pre-payments $'000** | **Derivatives $'000** | **Concession notes $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|
| **At 1 July 2005** | 647,775 | 1,473 | - | - | 192,765 | 1,924 | 843,937 |
| Under/(over) adjustment | - | (65) | - | - | - | (773) | (838) |
| Charged/(credited) to the income statement | (71,490) | (709) | 7,111 | - | (1,285) | 2,199 | (64,174) |
| Charged/(credited) to equity | - | - | - | 5,676 | - | - | 5,676 |
| **At 30 June 2006** | **576,285** | **699** | **7,111** | **5,676** | **191,480** | **3,350** | **784,601** |
| Under/(over) adjustment | 5,705 | - | - | - | - | (201) | 5,504 |
| Charged/(credited) to the income statement | (27,353) | (699) | 2,889 | - | 49,773 | 10,497 | 35,107 |
| Charged/(credited) to equity | - | - | - | 53,122 | - | - | 53,122 |
| Acquisition of subsidiary | 844,068 | - | 1,690 | - | 27,558 | 33,527 | 906,843 |
| Transfer to discontinued operations | (9,709) | - | - | - | | - | (9,709) |
| **At 30 June 2007** | **1,388,996** | **-** | **11,690** | **58,798** | **268,811** | **47,173** | **1,775,468** |

| **Movements - Parent** | **Fixed assets $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|
| **At 1 July 2005** | - | - | - |
| Under/(over) adjustment | - | 8 | 8 |
| Charged/(credited) to the income statement | - | (3) | (3) |
| **At 30 June 2006** | **-** | **5** | **5** |
| Charged/(credited) to the income statement | 51 | 7,667 | 7,718 |
| Charged/(credited) to equity | - | - | - |
| **At 30 June 2007** | **51** | **7,672** | **7,723** |

## 28. NON-CURRENT LIABILITIES – NON-INTEREST BEARING LIABILITIES

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Concession notes - CityLink | **-** | 201,766 | **-** | - |
| Concession notes - M1 | **16,997** | - | **-** | - |
| Promissory notes - M2 | **11,645** | 11,711 | **-** | - |
| West Gate-CityLink-Monash upgrade | **170,188** | - | **-** | - |
| Unearned income | **18,000** | - | **-** | - |
| Land Transport Notes | **449** | 422 | **-** | - |
| Lease incentive (refer note 37) | **4,888** | - | **-** | - |
| | **222,167** | 213,899 | **-** | - |

*Concession Notes – CityLink*

During the period Transurban signed an agreement with the State of Victoria and VicRoads to jointly fund upgrades and improvements to 75 kilometres of the West Gate – CityLink (Southern Link) – Monash Freeway corridor. To fund the upgrade Transurban will pay the State $614.3 million over three years in satisfaction of its current and future obligations to repay concession notes issued to the State.

The agreement effectively represents the termination of any future obligation to the State of Victoria by the Group by assigning the right to receive future concession payments made by CityLink Melbourne to Transurban Holding Trust. On a Group basis, the impact of concession notes on the Balance Sheet and Income Statement is nil, as the Group has a right of offset.

As such, the impact of time value of money on the obligation to pay the State the $614.3 million over 3 years is the only ongoing expense recognised in the Group consolidation within the Income Statement. On initial recognition of this obligation a payable of $505.9 million was recognised which represented the present value of Transurban's obligation. The discount on this obligation has partially unwound over the period and the present value of the obligation at 30 June 2007 is $554.7 million. The unwinding of the present value is presented as a "Finance Cost" (refer note 7).

An intangible asset representing the future economic benefits arising from increased toll revenue as a result of increased traffic flows from the upgrades has been recognised (refer note 21).

**Reconciliation of the movement in the Concession Note liability**

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Concession Note liability at the start of the year | **201,766** | 127,277 | **-** | - |
| Concession Notes issued during the year | **95,600** | 95,600 | **-** | - |
| Concession notes reassigned back to the group at 1 July 2006 | **(201,766)** | - | **-** | - |
| Concession notes reassigned back to the group during the year | **(95,600)** | - | **-** | - |
| *Valuation adjustments for the year:* | | | | |
| Charge/(credit) for Concession Notes on issue at beginning of period | **-** | 52,436 | **-** | - |
| Credit for Concession Notes issued during the year | **-** | (73,547) | **-** | - |
| Concession Note liability at the end of the year | **-** | 201,766 | **-** | - |

*Concession Notes – M1 Eastern Distributor*

The Eastern Distributor Project Deed between Airport Motorway Limited, Airport Motorway Trust and the Roads and Traffic Authority ("RTA") provides for annual concession fees of $15.0 million during the construction phase and for the first 24 years after construction completion of the Eastern Distributor ("ED"). Until a certain threshold return is achieved, payments of concession fees due under the ED Project Deed will be satisfied by means of the issue of non-interest bearing Concession Notes.

Concession Notes have been included in the Financial Report as non-interest bearing liabilities at the present value of expected future repayments. As the timing and profile of these repayments is largely determined by the available equity cash flows of the M1 Motorway, the present value of the expected future repayments is determined using a discount rate of 12 per cent which recognises their subordinated nature.

The face value of Concession Notes on issue at 30 June 2007 is $150.0 million. The Net Present Value at 30 June 2007 of the redemption payments relating to these Concession Notes is $17.0 million.

The indicative timing of these redemption payments is set out in the following table.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Concession Note Redemption** | | | | |
| Estimated Concession Note payments | | | | |
| later than 15 years | **150,000** | | | |
| | **150,000** | - | - | - |

**Reconciliation of the movement in the M1 Concession Note Liability**

| | | | | |
|---|---|---|---|---|
| Concession Notes acquired | **15,895** | - | - | - |
| Discount of Concession Notes on issue at the beginning of the period | **1,102** | - | - | - |
| Concession Note liability at the end of the year | **16,997** | - | - | - |

*Promissory Notes – M2 Motorway*

The Hills Motorway Trust has entered into leases with the Roads and Traffic Authority of New South Wales ("RTA"). Annual lease liabilities under these leases total $7.0 million, indexed annually to the Consumer Price Index over the estimated period that the M2 Motorway will be used. Until such time as a threshold return is achieved, payments under these leases can be made at any time at the discretion of the Responsible Entity of the Trust, by means of the issue of non-interest bearing Promissory notes to the RTA.

Promissory Notes have been included in the Financial Report as non-interest bearing liabilities at the present value of expected future repayments. As the timing and profile of these repayments is largely determined by the available equity cash flows of the M2 Motorway, the present value of the expected future repayments is determined using a discount rate of 12 per cent which recognises their subordinated nature.

A change in the accounting treatment for Promissory Notes to exclude the construction period of the M2 from the repayment profile occurred in the period to 30 June 2006. This change has extended the timing of commencement of repayments by 9 years to 2022.

The face value of Promissory Notes on issue at 30 June 2007 is $87.1 million (2006:$78.1 million). The Net Present Value at 30 June 2007 of the redemption payments relating to these Promissory Notes is $11.6 million (2006: $11.7 million).

The indicative timing of these redemption payments is set out in the following table.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Promissory Notes – M2 Motorway* | | | | |
| **Promissory Note Redemption** | | | | |
| Estimated Promissory Note payments | | | | |
| later than 15 years | **87,125** | 78,071 | | |
| | **87,125** | 78,071 | **-** | - |

**Reconciliation of the movement in the M2 Promissory Note liability**

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| Promissory Notes liability at the start of the year | **11,711** | 22,116 | **-** | **-** |
| Promissory Notes issued during the year | **9,054** | 8,839 | **-** | **-** |
| Discount of Promissory Notes on issue at the beginning of the year | **1,405** | (11,682) | **-** | **-** |
| Revaluation of notes due to change in payment profile | **(2,621)** | - | **-** | **-** |
| Discount of Promissory Notes issued during the year | **(7,904)** | (7,562) | **-** | **-** |
| Promissory Note liability at the end of the year | **11,645** | 11,711 | **-** | **-** |

**Land Transport Notes**

Land Transport Notes are carried at a present value of $0.4 million and will be repaid no later than 30 days prior to the last day of the CityLink concession period.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 29. NON-CURRENT LIABILITIES – PROVISIONS

| | | | | |
|---|---|---|---|---|
| Employee benefits | **1,752** | 364 | **-** | - |
| | **1,752** | 364 | **-** | - |

## 30. CONTRIBUTED EQUITY

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **a) Share capital** | | | | |
| Fully paid ordinary shares | **-** | - | **167,094** | 83,068 |
| Fully paid stapled securities | **6,078,487** | 4,277,736 | **-** | - |
| | **6,078,487** | 4,277,736 | **167,094** | 83,068 |

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **Number** | Number | **Number** | Number |
| | **'000** | '000 | **'000** | '000 |
| **Share capital** | | | | |
| Fully paid ordinary shares | **-** | - | **1,068,375** | 816,634 |
| Fully paid stapled securities | **1,068,375** | 816,634 | **-** | - |
| | **1,068,375** | 816,634 | **1,068,375** | 816,634 |

**b) Movement in ordinary share capital**

| | | | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|---|---|
| **Date** | **Details** | **Notes** | **Number of Securities '000** | **Issue Price** | **$'000** | **Issue Price** | **$'000** |
| 1 July 2005 | Opening Balance | | 791,416 | - | 4,127,228 | - | 76,007 |
| 7 Sep 2005 | Exercise of May 2002 Options | e | 46 | $4.2200 | 194 | $0.2800 | 13 |
| 21 Sep 2005 | Exercise of October 2001 Options | e | 250 | $4.4042 | 1,101 | $0.2800 | 70 |
| 21 Sep 2005 | Exercise of April 2001 Options | e | 140 | $3.8170 | 534 | $0.2800 | 39 |
| 1 Dec 2005 | Exercise of May 2002 Options | e | 33 | $4.2200 | 139 | $0.2800 | 8 |
| 13 Dec 2005 | Exercise of May 2002 Options | e | 67 | $4.2200 | 283 | $0.2800 | 19 |
| 13 Dec 2005 | Exercise of May 2002 Options | e | 15 | $4.2200 | 63 | $0.2800 | 4 |
| 13 Dec 2005 | Exercise of April 2001 Options | e | 250 | $3.8170 | 953 | $0.2800 | 70 |
| 13 Dec 2005 | Exercise of October 2001 Options | e | 250 | $4.4042 | 1,101 | $0.2800 | 70 |
| 16 Dec 2005 | Exercise of April 2002 Options | e | 137 | $4.0300 | 551 | $0.2800 | 38 |
| 31 Dec 2005 | Acquisition of Treasury Securities | g | (1,580) | $6.4726 | (10,230) | $0.2800 | (442) |
| 3 Jan 2006 | Conversion of CARS | f | 4,928 | $5.8590 | 28,873 | $0.2800 | 1,380 |
| 28 Feb 2006 | Distribution Reinvestment Plan | d | 14,377 | $6.4689 | 93,003 | $0.2800 | 4,026 |
| 20 Mar 2006 | Exercise of May 2002 Options | e | 67 | $4.2200 | 283 | $0.2800 | 19 |
| 20 Jun 2006 | Exercise of May 2002 Options | e | 359 | $4.2200 | 1,515 | $0.2800 | 101 |
| 20 Jun 2006 | Exercise of April 2002 Options | e | 86 | $4.0300 | 347 | $0.2800 | 24 |
| 20 Jun 2006 | Exercise of October 2001 Options | e | 1,000 | $4.4042 | 4,404 | $0.2800 | 280 |
| 30 Jun 2006 | Conversion of CARS | f | 4,793 | $5.7154 | 27,394 | $0.2800 | 1,342 |
| Balance at 30 June 2006 | | | 816,634 | | 4,277,736 | | 83,068 |
| 25 Aug 2006 | Distribution Reinvestment Plan | d | 15,708 | $6.6315 | 104,168 | $0.2800 | 4,398 |
| 27 Sep 2006 | Disposal of treasury securities | g | 26 | $7.1000 | 185 | $0.2800 | 7 |
| 30 Oct 2006 | Disposal of treasury securities | g | 48 | $7.3360 | 352 | $0.2800 | 13 |
| 31 Dec 2006 | Acquisition of Treasury Securities | g | (2,067) | $7.2823 | (15,052) | $0.2800 | (579) |
| 31 Dec 2006 | Conversion of CARS | f | 321 | $5.7154 | 1,835 | $0.2800 | 90 |
| 3 Jan 2007 | Conversion of CARS | f | 32,523 | $5.7154 | 185,882 | $0.3400 | 11,059 |
| 17 Jan 2007 | Disposal of treasury securities | g | 16 | $7.6749 | 123 | $0.3400 | 5 |
| 19 Jan 2007 | Options exercised | e | 29 | $4.2200 | 122 | $0.3400 | 10 |
| 7 Feb 2007 | Disposal of treasury securities | g | 44 | $7.7720 | 341 | $0.3400 | 15 |
| 15 Feb 2007 | Disposal of treasury securities | g | 68 | $7.6810 | 521 | $0.3400 | 23 |
| 22 Feb 2007 | Disposal of treasury securities | g | 22 | $7.6180 | 168 | $0.3400 | 7 |
| 27 Feb 2007 | Options exercised | e | 48 | $4.2200 | 203 | $0.3400 | 16 |
| 28 Feb 2007 | Distribution Reinvestment Plan | d | 17,031 | $7.3741 | 125,588 | $0.3400 | 5,791 |
| 14 Apr 2007 | Conversion of CARS | f | 32,541 | $5.7154 | 185,985 | $0.3400 | 11,064 |
| 8 May 2007 | Acquisition of Sydney Roads Group | h | 148,431 | $7.8700 | 1,168,152 | $0.3400 | 50,468 |
| 29 Jun 2007 | Acquisition of Sydney Roads Group | h | 6,952 | $7.8700 | 54,712 | $0.3400 | 2,364 |
| | Less: | | | | | | |
| | Transaction costs arising on issue of securities | | | | (905) | | (39) |
| | CARS underwriting fees | | | | (11,629) | | (686) |
| 30 June 2007 | Closing Balance | | 1,068,375 | | 6,078,487 | | 167,094 |

**c) Stapled Securities**

Stapled Securities entitle the holder to participate in distributions and the winding up of the Transurban Group in proportion to the number of and amounts paid on the securities held. On a show of hands every holder of Stapled Securities present at a meeting in person or by proxy, is entitled to one vote.

During the year, the triple stapled security was restructured. Transurban Limited was de-stapled from the triple staple, and became a subsidiary of Transurban Holdings Limited. Transurban International Limited became the third entity in the triple stapled security.

**d) Distribution Reinvestment Plan**

The Transurban Group has established a distribution reinvestment plan under which holders of Stapled Securities may elect to have all or part of their distribution entitlements satisfied by the issue of new Stapled Securities rather than by cash. Securities were issued under the plan at a 2.5 per cent discount to the market price. The discount has been removed for the distribution payable for the 6 months ended 30 June 2007.

**e) Options**

Information relating to the Transurban Group Executive Option Plan, including details of options issued, exercised, and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 34.

**f) Conversion of CARS**

During the year all remaining CARS were converted into Transurban Group Stapled Securities. On conversion 65.4 million Stapled Securities were issued.

**g) Treasury securities**

Stapled securities were issued to executives under the Executive Loan Plan. The securities are held by the executive but will only vest in the executive in accordance with the terms of the plan. The acquired securities cannot be transferred or sold while the loan is outstanding. On forfeit, the securities are sold on market.

**h) Sydney Roads Group acquisition**

The consideration given to the holders of SRG securities on acquisition by the Transurban Group consisted of 155.4 million Transurban Group stapled securities issued at one Transurban Group Stapled Security for every 5.7 SRG Stapled Securities held, or a cash payment of $1.32 per SRG security totalling $63.6 million (refer note 39).

## 31. RESERVES AND RETAINED PROFITS / (ACCUMULATED LOSSES)

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **(a) Reserves** | | | | |
| Cash flow hedges reserve | **(11,747)** | (54,275) | **-** | - |
| Share based payments reserve | **4,098** | 1,188 | **69** | 20 |
| Foreign currency translation reserve | **(11,181)** | - | **-** | - |
| | **(18,830)** | (53,087) | **69** | 20 |
| **Movements** | | | | |
| *Cash flow reserve* | | | | |
| Balance 1 July | **(54,275)** | - | **-** | - |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax | **-** | (40,074) | **-** | |
| Revaluation - gross | **57,605** | (33,954) | **-** | - |
| Deferred tax (note 20 and 27) | **(16,420)** | 18,626 | **-** | - |
| Transfer to net profit - gross | **1,343** | 1,127 | **-** | - |
| Balance 30 June | **(11,747)** | (54,275) | **-** | - |
| *Share-based payments reserve* | | | | |
| Balance 1 July | **1,188** | - | **20** | - |
| Amortisation of benefits | **1,194** | 470 | **49** | 20 |
| Employee distribution | **1,716** | 718 | **-** | - |
| Balance 30 June | **4,098** | 1,188 | **69** | 20 |
| *Foreign currency translation reserve* | | | | |
| Balance 1 July | **-** | - | **-** | - |
| Currency translation differences arising during the year | **(11,181)** | - | **-** | - |
| Balance 30 June | **(11,181)** | - | **-** | - |
| **(b) Retained profits / (accumulated losses)** | | | | |
| Balance 1 July | **(1,767,839)** | (1,322,181) | **230,601** | (1,137) |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax | **-** | 16,840 | **-** | - |
| Net profit / (loss) for the year | **(151,236)** | (60,900) | **31,227** | 231,738 |
| Distributions | **(515,733)** | (401,598) | **-** | - |
| Balance 30 June | **(2,434,808)** | (1,767,839) | **261,828** | 230,601 |

**(c) Nature and purpose of reserves**

(i) Cash flow reserve – cash flow hedges

The cash flow reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(m). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1 (c).

## 32. MINORITY INTEREST

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **TIL** | | | | |
| Opening balance | | | | |
| Distributions | **-** | - | **-** | - |
| Profit / (loss) | **(197)** | - | **-** | - |
| Dividends paid | **-** | - | **-** | - |
| Closing balance | **(197)** | - | **-** | - |
| **M1** | | | | |
| Opening balance | **-** | - | **-** | - |
| Acquisition of subsidiary | **362,024** | - | **-** | - |
| Distributions | **(17,196)** | - | **-** | - |
| Profit / (loss) | **(888)** | - | **-** | - |
| Closing balance | **343,940** | - | **-** | - |
| **M4** | | | | |
| Opening balance | **-** | - | **-** | - |
| Acquisition of subsidiary | **52,213** | - | **-** | - |
| Distributions | **(4,090)** | - | **-** | - |
| Profit / (loss) | **137** | - | **-** | - |
| Closing balance | **48,260** | - | **-** | - |

## 33. DISTRIBUTIONS

The distributions set out below represent distributions to stapled securities holders. Group distributions are paid by a Group entity; the Transurban Holding Trust.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Distributions proposed** | | |
| Final distribution payable and recognised as a liability: 27.5 cents (2006 - 25.5 cents) per fully paid stapled security payable 27 August 2007 | **294,744** | 207,422 |
| **Distributions paid during the year** | | |
| Final distribution for 2006 financial year of 25.5 cents (2005 - 18.0 cents) per fully paid Stapled Security paid 25 August 2006 | **207,422** | 142,443 |
| Interim distribution for 2007 financial year of 26.5 cents cents (2006 - 24.5 cents) per fully paid Stapled Security paid 28 February 2007 | **220,989** | 194,188 |
| Total distributions paid | **428,411** | 336,631 |
| Distributions paid in cash or satisfied by the issue of Stapled Securities under the distribution reinvestment plan during the years ended 30 June 2007 and 30 June 2006 | | |
| Paid in cash | **197,408** | 243,240 |
| Executive loans - repayments | **1,230** | 352 |
| Satisfied by issue of Stapled Securities | **229,756** | 93,007 |
| Funds available for future distribution reinvestment plans | **17** | 32 |
| | **428,411** | 336,631 |

## 34. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Directors

With the exception of the changes noted below, the following persons were directors of the Transurban Group during the financial year:

*Chairman – non-executive*
David J Ryan AO
Laurence G Cox AO [(1)]

*Non-executive directors*
Peter C Byers [(2)]
Geoffrey O Cosgriff
Jeremy GA Davis
Susan M Oliver
Christopher J S Renwick AM
James Keyes [(3)]
Jennifer Eve [(3)]

*Executive directors*
Kimberley Edwards

(1) Laurence G Cox was Chairman from the beginning of the financial period until his resignation on 28 February 2007

(2) Peter C Byers was a non-executive director from the beginning of the financial period until his retirement on 23 October 2006.

(3) James Keyes and Jennifer Eve were appointed non-executive directors of Transurban International Limited on 18 September 2006 and continue in office at the date of this report.

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year. All executives are employees of Transurban Limited.

| **Name** | **Position** |
|---|---|
| Chris Brant | Chief Finance Officer |
| Brendan Bourke | Group General Manager Operations |
| Paul O'Shea | Group General Manager Legal and Risk Management |
| Gareth Mann | Group General Manager Development |

All of the above persons were also key management persons during the year ended 30 June 2006.

### (c) Key management personnel compensation

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2007 $** | 2006 $ | **2007 $** | 2006 $ |
| Short-term employee benefits | **7,700,724** | 6,947,882 | **354,185** | 321,497 |
| Post-employment benefits | **809,728** | 1,483,918 | **167,170** | 121,448 |
| Share-based payments | **1,225,116** | 1,016,268 | **1,225,116** | 1,016,268 |
| | **9,735,568** | 9,448,068 | **1,746,471** | 1,459,213 |

The company has taken advantage of the relief provided by the Corporations Regulations allowing the transfer of the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 21 to 29.

### (d) Equity instrument disclosures relating to key management personnel

*(i) Share-based payments*

Details of options and other executive long term incentives, together with terms and conditions, can be found in section D of the remuneration report on pages 29 to 35.

*(ii) Option holdings*

The number of options over ordinary shares in the company held during the financial year by each director of Transurban Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| **2007 Name** | **Balance at the start of the year** | **Granted during the year as remuneration** | **Exercised during the year** | **Other changes during the year** | **Balance at the end of the year** | **Vested and exercisable at the end of the year** | **Unvested** |
|---|---|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | | | |
| K Edwards | - | - | - | - | - | - | - |
| **Other key management personnel of the Group** | | | | | | | |
| C Brant | - | - | - | - | - | - | - |
| B Bourke | - | - | - | - | - | - | - |
| P O'Shea | - | - | - | - | - | - | - |
| G Mann | - | - | - | - | - | - | - |

| **2006**<br><br>**Name** | **Balance at the start of the year** | **Granted during the year as remuneration** | **Exercised during the year** | **Other changes during the year** | **Balance at the end of the year** | **Vested and exercisable at the end of the year** | **Unvested** |
|---|---|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | | | |
| K Edwards | 1,500,000 | - | 1,500,000 | - | - | - | - |
| **Other key management personnel of the Group** | | | | | | | |
| C Brant | - | - | - | - | - | - | - |
| B Bourke | - | - | - | - | - | - | - |
| P O'Shea | - | - | - | - | - | - | - |
| G Mann | - | - | - | - | - | - | - |

*(iii) Executive long term incentive holdings*

The number of ELTI units held during the financial year by each director of Transurban Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| **2007**<br><br>**Name** | **Balance at the start of the year** | **Granted during the year as remuneration** | **Matured and paid during the year** | **Other changes during the year** | **Balance at the end of the year** | **Matured and payable at the end of the year** |
|---|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | | |
| K Edwards | 800,000 | - | 800,000 | - | - | - |
| **Other key management personnel of the Group** | | | | | - | - |
| C Brant | 170,000 | - | 170,000 | - | - | - |
| B Bourke | 160,000 | - | 160,000 | - | - | - |
| P O'Shea | 120,000 | - | 120,000 | - | - | - |
| G Mann | - | - | - | - | - | - |

| **2006**<br><br>**Name** | **Balance at the start of the year** | **Granted during the year as remuneration** | **Matured and paid during the year** | **Other changes during the year** | **Balance at the end of the year** | **Matured and payable at the end of the year** |
|---|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | | |
| K Edwards | 1,650,000 | - | 850,000 | - | 800,000 | - |
| **Other key management personnel of the Group** | | | | | | |
| C Brant | 170,000 | - | - | - | 170,000 | - |
| B Bourke | 320,000 | - | 160,000 | - | 160,000 | - |
| P O'Shea | 250,000 | - | 130,000 | - | 120,000 | - |
| G Mann | - | - | - | - | - | - |

*(iv) Executive Loan Plan*

The number of securities held under the executive loan plan during the financial year by each director of Transurban Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| 2007<br>Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | | |
| K Edwards | 312,500 | 410,000 | - | - | 722,500 | - |
| **Other key management personnel of the Group** | | | | | | |
| C Brant | 118,000 | 175,000 | - | - | 293,000 | - |
| B Bourke | 102,000 | 160,000 | - | - | 262,000 | - |
| P O'Shea | 75,000 | 130,000 | - | - | 205,000 | - |
| G Mann | 112,500 | 160,000 | - | - | 272,500 | - |

| 2006<br>Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | | |
| K Edwards | - | 312,500 | - | - | 312,500 | - |
| **Other key management personnel of the Group** | | | | | | |
| C Brant | - | 118,000 | - | - | 118,000 | - |
| B Bourke | - | 102,000 | - | - | 102,000 | - |
| P O'Shea | - | 75,000 | - | - | 75,000 | - |
| G Mann | - | 112,500 | - | - | 112,500 | - |

*(v) Share holdings*

The number of Transurban Group Stapled Securities and Convertible Adjusting Rate Securities ("CARS") held during the financial year by each director of Transurban Holdings Limited and other key management personnel of the Group, including their personally-related parties, are set out below.

*Stapled Securities*

| 2007<br><br>Name | Balance at the start of the year | Received during the year on the exercise of options | Received during the year via the Executive Loan Plan | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | |
| D J Ryan AO | 22,394 | - | - | 1,697 | 24,091 |
| L G Cox AO | 1,142,500 | - | - | (1,142,500) | - |
| P C Byers | 70,580 | - | - | (70,580) | - |
| G O Cosgriff | 31,110 | - | - | 17,501 | 48,611 |
| J G A Davis | 51,817 | - | - | 3,775 | 55,592 |
| S M Oliver | 68,009 | - | - | (26,178) | 41,831 |
| C J S Renwick AM | - | - | - | 21,552 | 21,552 |
| K Edwards | 1,873,500 | - | 410,000 | (250,000) | 2,033,500 |
| **Other key management personnel of the Group** | | | | | |
| C Brant | 119,448 | - | 175,000 | 1,944 | 296,392 |
| B Bourke | 474,749 | - | 160,000 | 36,579 | 671,328 |
| P O'Shea | 437,324 | - | 130,000 | (124,835) | 442,489 |
| G Mann | 112,600 | - | 160,000 | 107 | 272,707 |

| **2006**<br><br>**Name** | **Balance at the start of the year** | **Received during the year on the exercise of options** | **Received during the year via the Executive Loan Plan** | **Other changes during the year** | **Balance at the end of the year** |
|---|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | | |
| D J Ryan AO | 21,577 | - | - | 817 | 22,394 |
| L G Cox AO | 1,142,500 | - | - | - | 1,142,500 |
| P C Byers | 70,580 | - | - | - | 70,580 |
| G O Cosgriff | 24,910 | - | - | 6,200 | 31,110 |
| J G A Davis | 50,000 | - | - | 1,817 | 51,817 |
| S M Oliver | 62,540 | - | - | 5,469 | 68,009 |
| C J S Renwick AM | - | - | - | - | - |
| K Edwards | 61,000 | 1,500,000 | 312,500 | - | 1,873,500 |
| **Other key management personnel of the Group** | | | | | |
| C Brant | - | - | 118,000 | 1,448 | 119,448 |
| B Bourke | 357,710 | - | 102,000 | 15,039 | 474,749 |
| P O'Shea | 380,739 | - | 75,000 | (18,415) | 437,324 |
| G Mann | - | - | 112,500 | 100 | 112,600 |

*CARS*

| **2007**<br><br>**Name** | **Balance at the start of the year** | **Received during the year on the exercise of options** | **Other changes during the year** | **Balance at the end of the year** |
|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | |
| D J Ryan AO | - | - | - | - |
| L G Cox AO | - | - | - | - |
| P C Byers | - | - | - | - |
| G O Cosgriff | 121 | - | (121) | - |
| J G A Davis | - | - | - | - |
| S M Oliver | - | - | - | - |
| C J S Renwick AM | - | - | - | - |
| K Edwards | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| **Other key management personnel of the Group** | | | | |
| C Brant | - | - | - | - |
| B Bourke | 400 | - | (400) | - |
| P O'Shea | - | - | - | - |
| G Mann | - | - | - | - |

| **2006**<br><br>**Name** | **Balance at the start of the year** | **Received during the year on the exercise of options** | **Other changes during the year** | **Balance at the end of the year** |
|---|---|---|---|---|
| **Directors of Transurban Holdings Limited** | | | | |
| D J Ryan AO | - | - | - | - |
| L G Cox AO | - | - | - | - |
| P C Byers | - | - | - | - |
| G O Cosgriff | 121 | - | - | 121 |
| J G A Davis | - | - | - | - |
| S M Oliver | - | - | - | - |
| C J S Renwick AM | - | - | - | - |
| K Edwards | - | - | - | - |
| G R Phillips | - | - | - | - |
| **Other key management personnel of the Group** | | | | |
| C Brant | - | - | - | - |
| B Bourke | 400 | - | - | 400 |
| P O'Shea | - | - | - | - |
| G Mann | - | - | - | - |

### (e) Other transactions with directors and key management personnel

During the time that Mr Laurie Cox was Chairman of the Group he was also a director of Macquarie Corporate Finance Limited (a wholly owned subsidiary of Macquarie Bank Limited). Transurban Limited is entitled to receive management fees of $6,522,999 from Macquarie Bank in relation to the extension of the term of the Infrastructure Borrowing Facilities provided by Macquarie Bank. This fee was recognised during the year ended 30 June 2004 and was received quarterly until April 2007. During this year $2,330,190 was received. Transurban Limited also shared the cost of Mr Cox's personal assistant with Macquarie Bank during his time as the Group director.

Mr Geoffrey Cosgriff is a director of LogicaCMG Pty Limited which provided unique Information Technology skills required to support Transurban's tolling systems. LogicaCMG is one of two companies capable of assisting in this area and Transurban has dealings with both. Transurban has also outsourced its Information Technology Infrastructure support to LogicaCMG which is to commence during the year ending 30 June 2008.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **$** | $ |
| **Amounts recognised as expenses** | | | | |
| Consultant fees | **114,127** | 23,318 | **-** | - |
| | **114,127** | 23,318 | **-** | - |

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 or receivable from director related entities of the Transurban Group at balance date relating to the above types of transactions.

| | | | | |
|---|---|---|---|---|
| Current assets - other related parties | **-** | - | **6,658,245** | 6,598,354 |
| Non-current assets - other related parties | **-** | - | **34,492,109** | - |
| Current assets - Macquarie Bank Limited | **-** | 2,330,150 | **-** | - |
| Non-current liability | **-** | - | **1,232,762,395** | 3,619,029 |
| Current liabilities | **-** | - | **1,670,478** | 2,609,413 |

## 35. REMUNERATION OF AUDITORS

During the year the fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **$** | $ |
| **1. Assurance services** | | | | |
| *Audit services* | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Audit and review of financial reports and other audit work under the Corporations Act 2001. | **1,013,000** | 689,850 | **77,000** | 37,500 |
| Fees paid to non-PricewaterhouseCoopers audit firms for the audit or review of financial reports | **75,000** | - | **-** | - |
| Total remuneration for audit services | **1,088,000** | 689,850 | **77,000** | 37,500 |
| *Other assurance services* | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Due diligence | **30,000** | 158,621 | **-** | 158,621 |
| Compliance plan audit | **-** | 24,700 | **-** | - |
| Other assurance services including IFRS | **293,200** | 329,335 | **-** | 111,691 |
| Controls assistance | **-** | 163,000 | **-** | - |
| Fees paid to non-PricewaterhouseCoopers audit firms | **713,685** | - | **-** | - |
| Total remuneration for other assurance services | **1,036,885** | 675,656 | **-** | 270,312 |
| **2. Taxation services** | | | | |
| PricewaterhouseCoopers Australian firm: | | | | |
| Tax compliance services, including review of income tax returns | **158,900** | 104,735 | **2,958,592** | 104,735 |
| Tax consulting services | **3,221,200** | 1,128,028 | **382,273** | - |
| Indirect taxation services | **602,837** | 434,714 | **591,837** | - |
| Fees paid to non-PricewaterhouseCoopers audit firms | **186,355** | - | **-** | - |
| Total remuneration for taxation services | **4,169,292** | 1,667,477 | **3,932,702** | 104,735 |

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important. These assignments are principally tax advice and financial due diligence.

## 36. CONTINGENCIES

*Contingent Liabilities*

Transurban Finance Company ("TFC") maintains numerous debt facilities. Some of these facilities are subject to a pricing matrix based on the credit assigned to TFC by a rating agency. A reduction in rating will lead to an increase in the margin payable under the finance documents.

*Contingent Asset*

CityLink Melbourne Limited ("CML") is seeking compensation from the State of Victoria, claiming that Wurundjeri Way (Docklands) has had a Material Adverse Effect on the toll revenue earning capacity by CML. The claim was for approximately $36.0 million (net present value at the time of the initial claim under the Concession Deed). The matter is the subject of arbitration proceedings.

## 37. COMMITMENTS FOR EXPENDITURE

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **(a) Capital commitments** | | | | |
| Capital expenditure contracted for at the reporting date but not yet recognised as liabilities is as follows: | | | | |
| *Property, plant and equipment* | | | | |
| Payable: | | | | |
| Within one year | **102,634** | - | **-** | - |
| Later than one year but not later than five years | **119,247** | - | **-** | - |
| | **221,881** | - | **-** | - |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **(b) Lease commitments** | | | | |
| Commitments for minimum payments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities payable: | | | | |
| Within one year | **4,156** | 4,004 | **-** | - |
| Later than one year but not later than 5 years | **14,401** | 13,826 | **-** | - |
| Later than 5 years | **14,952** | 15,332 | **-** | - |
| | **33,509** | 33,162 | **-** | - |

**Promissory Notes**

The Responsible Entity, on behalf of the Hills Motorway Trust, has entered into leases with the Roads and Traffic Authority of New South Wales ("RTA"). Annual lease liabilities under these leases total $7.0 million indexed annually to the Consumer Price Index over the estimated period that the M2 Motorway will be used. Until such time as a threshold return is achieved, payments under these leases can be made at the discretion of the Responsible Entity, by means of the issue of non-interest bearing promissory notes to the RTA. Refer to note 28 for details.

**Concession Notes**

The Eastern Distributor Project Deed between Airport Motorway Limited, Airport Motorway Trust and the Roads and Traffic Authority of NSW ("RTA") provides for annual concession fees of $15 million during the construction phase and for the first 24 years after the construction completion date of the Eastern Distributor.

**Lease of 505 Little Collins Street**

The Transurban Group has entered into a lease commitment with Perpetual Trustees Company Limited for 505 Little Collins Street. The lease is classified as an operating lease and is for a term of ten years and seven months, expiring on 30 September 2016. A component of the agreement was that the lessor would contribute to the lessee a specified amount to the fitting out of the premises. This is considered to be an integral component of the lease agreement and therefore has been included as an offset to the total lease commitment. The lease incentive component has been included as a non-interest bearing liability and will be amortised over the lease period.

**Other operating leases**

The Group leases various offices under non-cancellable operating leases expiring within one to eleven years. The leases have varying terms, escalating clauses and renewal rights. On renewal, the terms of the leases are negotiated.

## 38. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The parent entity of the Group is Transurban Holdings Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 40.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 34.

### (d) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **$** | $ |
| *Tax consolidation legislation* | | | | |
| Current tax payable assumed from wholly-owned tax consolidation entities | **-** | - | **19,734,950** | 11,935,870 |
| Tax losses assumed from wholly-owned tax consolidated entities | **-** | - | **18,389,120** | 232,836,720 |
| *Revenue from services* | | | | |
| Electronic tolling system provided to other related party | **-** | 25,321,410 | **-** | - |
| Operating electronic tolling system for another related party | **6,242,360** | 3,137,478 | **-** | - |
| *Interest received* | | | | |
| Construction Phase Loan Notes | **-** | 11,380,320 | **-** | - |
| Term Loan Notes | **61,098,035** | 28,767,109 | **-** | - |
| *Losses from associates and joint venture partnership* | **(25,482,036)** | (8,634,089) | **-** | - |

### (e) Loans to/from related parties

| | Consolidated 2007 | Consolidated 2006 | Parent Entity 2007 | Parent Entity 2006 |
|---|---|---|---|---|
| *Loan to associate* | | | | |
| Beginning of the year | **469,767,198** | 392,000,000 | **-** | - |
| Loans advanced | **26,865,894** | 49,000,000 | **-** | - |
| Interest capitalised | **61,098,035** | 28,767,198 | **-** | - |
| End of year | **557,731,127** | 469,767,198 | **-** | - |

No provision for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts from related parties.

**(f) Loan to associate**

The "loan to associate" is via Term Loan Notes ("TLN") (formerly Construction Phase Loan Notes ("CPLN")). The CPLN represent the Group's funding contribution to the Westlink Motorway Partnership and on completion of the Westlink M7 Motorway the CPLN converted to TLN. The TLN earn interest at a fixed rate of 11.93 per cent from 16 December 2005 (the completion date of Westlink M7) until the earlier of 34 years and the termination of the "Agreement to Lease" between the Roads and Traffic Authority of New South Wales and Westlink Motorway Limited.

Any unpaid interest is capitalised and deemed to subscribe for further loan notes with an aggregate principal amount equal to that unpaid interest.

The TLN have not been affected by equity accounting losses from the associate.

## 39. BUSINESS COMBINATION

**(i) Additional 2.5 per cent interest in Westlink M7**

On 29 September 2006 Transurban AL Trust, a subsidiary of Transurban CARS Trust, acquired 100 per cent of the issued capital of Abigroup Westlink Partner Holding No. 2 Pty Limited and its subsidiary Abigroup Westlink Partner No. 2 Pty Limited.

The acquired entities contributed $2.5 million of net profit to the Group for the period 29 September 2006 to 30 June 2007. If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated losses for the year ended 30 June 2007 would have been $789.9 million and $151.4 million respectively.

Details of the fair value of assets and liabilities acquired are as follows:

| | **$'000** |
|---|---|
| Purchase consideration | |
| Cash paid | 34,300 |
| Total purchase consideration | 34,300 |
| Fair value of net identifiable assets acquired | 34,300 |
| Goodwill | - |

The assets and liabilities arising from the acquisition are as follows:

| | **Acquiree's carrying amount** | **Fair value** |
|---|---|---|
| | **$'000** | **$'000** |
| Term loan notes | 26,866 | 26,866 |
| Investment in associate entities | - | 7,434 |
| | 26,866 | 34,300 |

### (ii) Sydney Roads Group acquisition

*Summary of acquisition*

On 11 April 2007 the Transurban Group acquired a controlling interest in the Sydney Roads Group.

The acquired entities contributed revenues of $69.0 million and a net loss before tax of $18.9 million for the period from the 11 April 2007 until 30 June 2007. If the acquisition had occurred on 31 July 2006 (the date of formation of the Sydney Roads Group), consolidated revenue and consolidated loss after tax for the year ended 30 June 2007 would have been $1,085.4 million and $128.7 million respectively.

These amounts have been calculated using the groups accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2006 together with the consequential tax effects.

Details of the fair value of assets and liabilities acquired are as follows:

| | **$'000** |
|---|---|
| Summary of acquisition | |
| Cash paid | 63,596 |
| Equity consideration | 1,222,864 |
| Direct costs relating to the acquisition | 18,797 |
| Total purchase consideration | 1,305,257 |
| Fair value of net identifiable assets acquired | 1,194,154 |
| Goodwill | 111,103 |

The goodwill balance represents synergies achieved by the Group expanding its operating business units.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Purchase consideration* | | | | |
| Outflow of cash to acquire Sydney Roads Group, net of cash acquired | | | | |
| Cash consideration: | **63,596** | - | **63,596** | - |
| Cash transaction costs | **6,164** | | **812** | |
| Less: Cash acquired | **(92,362)** | - | **-** | - |
| Inflow of cash | **(22,602)** | - | **64,408** | - |

*Assets and liabilities acquired*

The assets and liabilities arising from the acquisition are as follows:

| | Acquiree's carrying amount | Fair value |
|---|---|---|
| | $'000 | $'000 |
| Cash | 92,362 | 92,362 |
| Interest receivable | 82,421 | 82,421 |
| Prepayments and other receivables | 19,518 | 19,518 |
| Derivative financial instruments | 9,650 | 9,650 |
| Intangible assets | 2,163,306 | 2,693,527 |
| Property, Plant and Equipment | 8,027 | 8,027 |
| Investments accounted for using the equity method | 879 | 577,011 |
| Deferred tax assets | 12,493 | 12,492 |
| Trade and other payables | (50,342) | (55,342) |
| Current tax payable | (4,998) | (4,998) |
| Interest payable | (59,368) | (59,368) |
| Deferred tax liabilities | (572,036) | (902,441) |
| Non-interest bearing liabilities | (57,038) | (15,895) |
| Borrowings | (848,573) | (848,573) |
| Total net identifiable assets | 796,301 | 1,608,391 |
| | | |
| Minority interests | (297,020) | (414,237) |
| Goodwill | - | 111,103 |
| Net identifiable assets | 499,281 | 1,305,257 |

The goodwill represents synergies achieved on the acquired operating business units.

The accounting for the acquisition of the Sydney Roads Group is provisional due to the completion of the compulsory acquisition occurring on 29 June 2007.

**(iii) Stapling of Transurban International Limited**

On 3 January 2007, Transurban International Limited joined the Transurban Stapled Group. For statutory reporting purposes the purchase method of accounting was applied to the stapling arrangement.

In applying the purchase method of accounting in the combined financial statements of Transurban Holdings Limited, the carrying amounts of the assets and liabilities of Transurban Holdings Limited at the date of the stapling arrangement were combined with the fair values of the identifiable assets, liabilities and contingent liabilities of Transurban International Limited at the date of the stapling arrangement.

*Assets and liabilities stapled*

The fair value of Transurban International Limited at the date of stapling was considered to be $nil, with Transurban International Limited holding no assets or liabilities.

## 40. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1 (a):

| Name of Entity | Country of Incorporation | Class of Security | Equity Holding 2007 % | Equity Holding 2006 % | Date Acquired |
|---|---|---|---|---|---|
| The CityLink Trust | Australia | Ordinary | 100 | 100 | |
| CityLink Melbourne Limited | Australia | Ordinary | 100 | 100 | |
| City Link Extension Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban Infrastructure Management Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban Collateral Security Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban Finance Trust | Australia | Ordinary | 100 | 100 | |
| Transurban Finance Company Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban Nominees Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban Nominees 2 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban WSO Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban AL Trust | Australia | Ordinary | 100 | 100 | |
| Transurban CARS Trust | Australia | Ordinary | 100 | 100 | |
| Transurban WSO Trust | Australia | Ordinary | 100 | 100 | |
| Roam Tolling Pty Ltd (formerly Transurban Infrastructure Developments WSO Pty Ltd) | Australia | Ordinary | 100 | 100 | |
| Transurban Retail Pty Ltd (formerly Transurban MF 1 Pty Ltd) | Australia | Ordinary | 100 | 100 | |
| Transurban (USA) Holdings No.1 Pty Ltd (formerly Transurban MF 2 Pty Ltd) | Australia | Ordinary | 100 | 100 | |
| Transurban Asset Management Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Roam Operations Pty Ltd (formerly Transurban Operations Pty Ltd) | Australia | Ordinary | 100 | 100 | |
| Transurban (USA) Holdings No.2 Pty Ltd (formerly Transurban MF Holdings Pty Ltd) | Australia | Ordinary | 100 | 100 | |
| Transurban Investments Pty Ltd | Australia | Ordinary | 100 | 100 | |
| The Hills Motorway Ltd | Australia | Ordinary | 100 | 100 | |
| Hills Motorway Management Ltd | Australia | Ordinary | 100 | 100 | |
| Hills Motorway Construction Company Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Hills Motorway Underwriting No.1 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Hills Motorway Underwriting No.2 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Hills Motorway Trust | Australia | Ordinary | 100 | 100 | |
| Abigroup Westlink Partner Holding No.4 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Abirgroup Westlink Partner No.4 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Abigroup WSO Holding No.4 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Abigroup Westlink Partner Holding No.2 Pty Limited | Australia | Ordinary | 100 | | 29/09/06 |
| Abigroup Westlink Partner No.2 Pty Limited | Australia | Ordinary | 100 | | 29/09/06 |

| | | | | | |
|---|---|---|---|---|---|
| LMI Westlink Partner Holding No.4 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| LMI Westlink Partner No.4 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| LMI WSO Holding No.4 Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Tollaust Pty Ltd | Australia | Ordinary | 100 | 100 | |
| Transurban (USA) Inc | USA | Ordinary | 100 | 100 | |
| Transurban (USA) Holdings Inc | USA | Ordinary | 100 | 100 | |
| Transurban (USA) Development Inc. | USA | Ordinary | 100 | 100 | |
| Transurban (895) LLC | USA | Ordinary | 100 | 100 | |
| Transurban (895) Finance Inc. | USA | Ordinary | 100 | 100 | |
| Transurban (895) Holdings Inc | USA | Ordinary | 100 | 100 | |
| Transurban (895) General Partnership | USA | Ordinary | 100 | 100 | |
| T (895) Finance Trust | Australia | Ordinary | 100 | 100 | |
| Transurban International Holdings LLC | Bermuda | Ordinary | 100 | - | 22/06/07 |
| Transurban DRIVe Holdings LLC | USA | Ordinary | 100 | - | 27/06/07 |
| Sydney Roads Limited | Australia | Ordinary | 100 | - | 11/04/07 |
| Sydney Roads Trust | Australia | Ordinary | 100 | - | 11/04/07 |
| Sydney Roads Management Limited | Australia | Ordinary | 100 | - | 11/04/07 |
| Eastern Distributor Funding Trust | Australia | Ordinary | 100 | - | 11/04/07 |
| Airport Motorway Trust | Australia | Ordinary | 71.35 | - | 11/04/07 |
| Airport Motorway Holdings Pty Ltd | Australia | Ordinary | 71.35 | - | 11/04/07 |
| Airport Motorway Limited | Australia | Ordinary | 71.35 | - | 11/04/07 |
| Airport Motorway Construction Company Pty Ltd | Australia | Ordinary | 71.35 | - | 11/04/07 |
| M5 Holdings Funding Trust | Australia | Ordinary | 100 | - | 11/04/07 |
| M5 Holdings Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| M4 Holdings No. 1 Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| Devome Pty Ltd | Australia | Ordinary | 75 | - | 11/04/07 |
| Statewide Roads Limited | Australia | Ordinary | 50.61 | - | 11/04/07 |
| SWR Services Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| SWR Engineers Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| Statewide Roads (M4) Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| SWR Operations Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| SWR Properties Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| Statewide Roads (M2) Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| SWR Constructors Pty Ltd | Australia | Ordinary | 50.61 | - | 11/04/07 |
| Lodavas Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| Lodco Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| Davjan Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| ISI Nominees Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| Focufu Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| LH Nominees Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| Millba Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |
| AJL Nominees Pty Ltd | Australia | Ordinary | 100 | - | 11/04/07 |

## 41. INVESTMENT IN ASSOCIATES AND JOINT VENTURE

### Westlink M7 Motorway

### (a) Carrying amount

| Name of company | Ownership interest | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **%** | % | **$'000** | $'000 | **$'000** | $'000 |
| WSO Company Pty Limited | **47.5** | 45 | **-** | - | **-** | - |
| Westlink Motorway Limited | **47.5** | 45 | **-** | - | **-** | - |
| WSO Finance Pty Limited | **47.5** | 45 | **-** | - | **-** | - |
| Westlink Motorway Partnership | **47.5** | 45 | **-** | 15,732 | **-** | - |

Each of the above is a member of the Westlink Motorway Group, established to invest in, construct and operate the Westlink M7 toll road in Sydney. All were incorporated in Australia.

WSO Company Pty Limited is the financier and operator of the Westlink M7 toll road.

Westlink Motorway Limited is the nominee manager of the Westlink Motorway Partnership.

WSO Finance Pty Limited is the financier of the Westlink M7 toll road.

Westlink Motorway Partnership was responsible for the construction of the Westlink M7 Motorway in Sydney. The M7 opened for operation on 16 December 2005.

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |

### (b) Movements in carrying amounts

| | | |
|---|---|---|
| Carrying amount at the beginning of the financial year | **15,732** | 6,236 |
| Additional investment acquired (note 39) | **7,434** | 18,130 |
| Share of loss after income tax | **(23,166)** | (8,634) |
| Carrying amount at the end of the financial year | **-** | 15,732 |

### (c) Share of losses

| | | |
|---|---|---|
| Loss before income tax | **(23,166)** | (8,634) |
| Income tax expense | **-** | - |
| Loss after income tax | **(23,166)** | (8,634) |

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |

**(d) Losses not recognised**

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Balance at 1 July | **30,479** | - |
| Unrecognised losses for the year | **46,064** | 30,479 |
| Balance at 30 June | **76,543** | 30,479 |

**(e) Summarised financial information**

| | Groups share of: | | | |
|---|---|---|---|---|
| | Assets $'000 | Liabilities $'000 | Revenue $'000 | Result $'000 |
| **2007** | | | | |
| Westlink Motorway Limited | **-** | **-** | **-** | **-** |
| WSO Finance Pty Limited | **28,500** | **28,500** | **63,430** | **-** |
| WSO Company Pty Limited | **147,625** | **209,266** | **62,067** | **(29,469)** |
| Westlink Motorway Partnership | **898,968** | **947,843** | **29,720** | **(39,761)** |
| | **1,075,093** | **1,185,609** | **155,217** | **(69,230)** |
| **2006** | | | | |
| Westlink Motorway Limited | - | - | - | - |
| WSO Finance Pty Limited | 6,810 | 6,810 | 48,616 | - |
| WSO Company Pty Limited | 139,287 | 169,767 | 21,555 | (30,479) |
| Westlink Motorway Partnership | 856,437 | 865,071 | 41,798 | (8,634) |
| | 1,002,534 | 1,041,648 | 111,969 | (39,113) |

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |

**(f) Share of expenditure commitments**

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Capital commitments | **177** | - |
| | **177** | - |

**(g) Contingent liabilities**

As at the reporting date there are no contingent liabilities.

### M5 Motorway

#### (a) Carrying amount

| | Ownership interest | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **%** | % | **$'000** | $'000 | **$'000** | $'000 |
| Interlink Roads Pty Ltd | **50.0** | - | **567,046** | - | **-** | - |

Interlink Roads Pty Ltd holds the Transurban Group's interest in the M5 Motorway in Sydney.

#### (b) Movements in carrying amounts

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Carrying amount at the beginning of the financial year | **-** | - |
| Additional investment acquired (refer note 39) | **576,132** | - |
| Share of loss after income tax | **(2,073)** | - |
| Dividends received/receivable | **(7,013)** | - |
| Carrying amount at the end of the financial year | **567,046** | - |

#### (c) Summarised financial information

| | Groups share of: | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Revenue | Result |
| | $'000 | $'000 | $'000 | $'000 |
| **2007** | | | | |
| Interlink Roads Pty Ltd | **155,568** | **307,402** | **19,025** | **7,013** |
| | **155,568** | **307,402** | **19,025** | **7,013** |
| **2006** | | | | |
| Interlink Roads Pty Ltd | - | - | - | - |
| | - | - | - | - |

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |

**(d) Share of expenditure commitments**

| | | |
|---|---|---|
| Capital commitments | **1,828** | - |
| | **1,828** | - |

**(e) Contingent liabilities**

As at the reporting date there are no contingent liabilities.

**Transtoll Pty Limited**

**(a) Carrying amount**

| | Ownership interest | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **%** | % | **$'000** | $'000 | **$'000** | $'000 |
| Transtoll Pty Limited | **20.5** | - | **636** | - | **-** | - |

The M1 and M4 Motorways have contracts with Transtoll Pty Limited for the maintenance of tolling systems.

**(b) Movements in carrying amounts**

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Carrying amount at the beginning of the financial year | **-** | - |
| Additional investment acquired | **879** | - |
| Share of loss after income tax | **(243)** | - |
| Carrying amount at the end of the financial year | **636** | - |

**(c) Share of losses**

| | | |
|---|---|---|
| Loss before income tax | **(347)** | - |
| Income tax expense | **104** | - |
| Loss after income tax | **(243)** | - |

### (d) Summarised financial information

| | Groups share of: Assets $'000 | Liabilities $'000 | Revenue $'000 | Result $'000 |
|---|---|---|---|---|
| **2007** | | | | |
| Transtoll Pty Limited | **3,226** | **2,589** | **6,604** | **(243)** |
| | **3,226** | **2,589** | **6,604** | **(243)** |
| **2006** | | | | |
| Transtoll Pty Limited | - | - | - | - |
| | - | - | - | - |

### (e) Share of expenditure commitments

There are no capital commitments as at the reporting date.

### (f) Contingent liabilities

There are no contingent liabilities as at the reporting date.

## 42. SHARE-BASED PAYMENTS

### (a) Employee Option Plan

Refer to section D of the remuneration report on pages 29 to 35 for details.

Set out below are summaries of options granted under the plan.

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| | | | Number | Number | Number | Number | Number | Number |
| **2007** | | | | | | | | |
| 26 April 2001 | 30 April 2006 | $3.817 | - | - | - | - | - | - |
| 23 October 2001 | 31 October 2006 | $4.404 | - | - | - | - | - | - |
| 1 February 2002 | 30 April 2007 | $4.280 | - | - | - | - | - | - |
| 9 April 2002 | 30 April 2007 | $4.030 | - | - | - | - | - | - |
| 20 May 2002 | 30 April 2007 | $4.220 | 76,283 | - | 76,283 | - | - | - |
| **Total** | | | 76,283 | - | 76,283 | - | - | - |
| Weighted average exercise price | | | $4.22 | - | $4.22 | - | - | - |
| **2006** | | | | | | | | |
| 26 April 2001 | 30 April 2006 | $3.817 | 390,000 | - | 390,000 | - | - | - |
| 23 October 2001 | 31 October 2006 | $4.404 | 1,500,000 | - | 1,500,000 | - | - | - |
| 1 February 2002 | 30 April 2007 | $4.280 | - | - | - | - | - | - |
| 9 April 2002 | 30 April 2007 | $4.030 | 237,300 | - | 223,200 | 14,100 | - | - |
| 20 May 2002 | 30 April 2007 | $4.220 | 744,852 | - | 586,102 | 82,467 | 76,283 | 76,283 |
| **Total** | | | 2,872,152 | - | 2,699,302 | 96,567 | 76,283 | 76,283 |
| Weighted average exercise price | | | $4.25 | - | $4.25 | $4.19 | $4.22 | $4.22 |

The weighted average price of Transurban Securities at the date of exercise of options exercised regularly during the year ended 30 June 2007 was $7.68 (2006 - $7.00)

The weighted average remaining contractual life of share options outstanding at the end of the year was nil years (2006 – 0.83 years)

**(b) Employee Long Term Incentives ("ELTI") Plan**

Refer to section D of the remuneration report on pages 29 to 35 for details.

Set out below are ELTI granted under the plan.

**2007**

| Grant date | Expiry date | Grant price | Balance at the start of the year Number | Granted during the year Number | Matured and paid during the year Number | Forfeited during the year Number | Balance at the end of the year Number | Matured and payable at the end of the year Number |
|---|---|---|---|---|---|---|---|---|
| 30 Sep 2004 | 30 Sep 2006 | $5.45 | 2,965,000 | - | 2,935,000 | 30,000 | - | - |
| **Total** | | | 2,965,000 | - | 2,935,000 | 30,000 | - | - |
| Weighted average exercise price | | | | - | $5.45 | $5.45 | - | - |

**2006**

| Grant date | Expiry date | Grant price | Balance at the start of the year Number | Granted during the year Number | Matured and paid during the year Number | Forfeited during the year Number | Balance at the end of the year Number | Matured and payable at the end of the year Number |
|---|---|---|---|---|---|---|---|---|
| 30 Sep 2003 | 30 Sep 2005 | $4.23 | 1,912,000 | - | 1,912,000 | - | - | - |
| 30 Sep 2004 | 30 Sep 2006 | $5.45 | 2,965,000 | - | - | - | 2,965,000 | - |
| **Total** | | | 4,877,000 | - | 1,912,000 | - | 2,965,000 | - |
| Weighted average exercise price | | | | $4.97 | $4.23 | - | $5.45 | - |

The weighted average price of Transurban Securities at the date of maturity was $7.21.

The weighted average remaining contractual life ELTI at the end of the year was nil years (2006 – 0.18 years)

**c) Executive Loan Plan**

Refer to section D of the remuneration report on pages 29 to 35 for details.

Set out below are securities granted under the plan.

**2007**

*Australian Based Plan*

**2007**

| Grant date | Expiry date | Grant price | Balance at the start of the year<br><br>Number | Granted during the year<br><br>Number | Exercised during the year<br><br>Number | Forfeited during the year<br><br>Number | Balance at end of the year<br><br>Number |
|---|---|---|---|---|---|---|---|
| 1 Nov 2005 | 1 Nov 2008 | $6.47 | 1,579,800 | - | - | 229,600 | 1,350,200 |
| 1 Nov 2006 | 1 Nov 2009 | $7.28 | - | 2,066,500 | - | 133,000 | 1,933,500 |
| Weighted average exercise price | | | $6.47 | $7.28 | - | $6.77 | $6.95 |

*Overseas based Plan*

**2007**

| Grant date | Expiry date | Grant price | Balance at the start of the year<br><br>Number | Granted during the year<br><br>Number | Matured and paid during the year<br>Number | Balance at the end of the year<br><br>Number | Matured and payable at the end of the year<br>Number |
|---|---|---|---|---|---|---|---|
| 01 Nov 2005 | 01 Nov 2008 | $6.47 | 189,700 | - | - | 189,700 | - |
| 01 Nov 2006 | 01 Nov 2009 | $7.28 | - | 300,000 | - | 300,000 | - |
| Weighted average exercise price | | | $6.47 | $7.28 | - | $6.97 | - |

*Australian Based Plan*

**2006**

| Grant date | Expiry date | Grant price | Balance at the start of the year<br><br>Number | Granted during the year<br><br>Number | Exercised during the year<br><br>Number | forfeited during the year<br><br>Number | Balance at end of the year<br><br>Number |
|---|---|---|---|---|---|---|---|
| 1 Nov 2005 | 1 Nov 2008 | $6.47 | - | 1,579,800 | - | - | 1,579,800 |
| Weighted average exercise price | | | - | $6.47 | - | - | $6.47 |

*Overseas based Plan*

**2006**

| Grant date | Expiry date | Grant price | Balance at the start of the year<br><br>Number | Granted during the year<br><br>Number | Matured and paid during the year Number | Balance at the end of the year<br><br>Number | Matured and payable at the end of the year Number |
|---|---|---|---|---|---|---|---|
| 01 Nov 2005 | 01 Nov 2008 | $6.47 | - | 189,700 | - | 189,700 | - |
| Weighted average exercise price | | | - | $6.47 | - | $6.47 | - |

**d) Employee security scheme**

The Transurban Employee Security Ownership Plan ("the Plan") was introduced in March 2002. The scheme offers employees the opportunity to participate in the success of the Company by investing in securities of the Transurban Group.

All Australian based current full-time and permanent part-time (excluding directors) and fixed term staff on contracts greater than 12 months are eligible to participate. Offers under the scheme are at the discretion of the Transurban Group, taking into account the Group's success and market performance.

Stapled Securities allocated under the scheme may only be sold once the employee has ceased employment with the Transurban Group. In all other aspects the Stapled Securities rank equally with other fully-paid securities on issue.

In February 2007, each participant was allocated 100 stapled securities (2006 - 100 stapled securities) at a value of $7.65 per stapled security (2006 - $6.90). Stapled Securities provided under the plan were purchased on the open market.

| | **2007 Number** | 2006 Number |
|---|---|---|
| Shares purchased on market under the plan and provided to participating employees | **50,300** | 44,000 |

**e) Performance Rights Plan ("PRP")**

Under the new PRP, Executives will be granted performance rights to acquire, at no cost to them, an allocated number of stapled securities, subject to the achievement of performance conditions at the end of a three year vesting period. Two performance measures will be utilised, one linked to Total Shareholder Return (TSR) over a three year vesting period and the second, an operational performance measure over the same period. The Plan has been structured so that rewards are only obtained if there are materially improved security holder returns and operational performance results over the three year vesting period. The performance hurdles attached to the performance rights have been set to ensure that both executives and stapled security holders generally benefit from the allocation of stapled securities to executives under the Plan.

There is only one testing date. The right to Stapled Securities cannot be transferred, exercised or otherwise dealt with during the vesting period.

No performance rights were issued under this plan in the current year as it was approved by the Board of Directors for implementation in November 2007.

Refer to section D of the remuneration report on pages 29 to 35 for details.

#### f) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense was $0.2 million (2006 - $0.1 million).

## 43. EVENTS OCCURRING AFTER THE BALANCE DATE

### a) Sale of Pocahontas Parkway group of assets and liabilities to Transurban DRIVe Holdings LLC

On 28 February 2007 a controlled entity announced its intention to sell the Pocahontas Parkway (Pocahontas) group of assets and liabilities, in Richmond, Virginia, USA, to Transurban DRIVe Holdings LLC (DRIVe Holdings). On 27 June 2007, DRIVe Holdings was incorporated as a wholly owned subsidiary of the Group with a view to immediate resale to parties external to the Transurban Group, after acquisition of Pocahontas by DRIVe Holdings. At balance date, the sale of Pocahontas and the sale of DRIVe Holdings had not occurred.

Pocahontas and DRIVe Holdings have been classified as disposal groups held for sale and reported as discontinued operations. (Refer Note 9).

On 21 August 2007, Transurban and Capital Partners reached agreement to co-invest in the USA privately financed toll road market through DRIVe. Transurban's initial interest will be 75 per cent with Capital Partners taking 25 per cent. As a result of this transaction the Pocahontas Parkway will be sold into Transurban DRIVe Holdings LLC for USD $236.0 million.

### b) TIFIA loan for Pocahontas Parkway, USA

On 19 July 2007, Transurban signed an agreement with the United States Federal Highways Administration ("FHWA") for a United States federal government loan to support the funding for the construction of a direct link between the Richmond International Airport and the Pocahontas Parkway.

Under the agreement, FHWA will provide Transurban with a USD$150.0 million Transportation Infrastructure Finance and Innovation Act ("TIFIA") loan. The loan will assist Transurban with construction of the Richmond Airport Connector and refinance a portion of existing project debt.

On 20 August 2007, Transurban received USD $97.8 million to allow for the refinance of existing debt.

### c) Strategic Investment in the ConnectEast Group

On 7 August 2007, Transurban announced that is has an economic interest in 6.28 per cent of the ConnectEast Group. The economic interest is held via cash-settled equity swaps (4.36 per cent) and a direct holding (1.92 per cent).

Transurban's total economic interest exceeded 5.0 per cent on 3 August 2007 after an acquisition of ConnectEast securities on market.

The investment is a strategic stake and Transurban has no current intention of making a takeover offer for the ConnectEast Group.

**d) Refinancing of Working Capital Facilities**

Transurban raised $600 million in the bank debt market in August 2007. Funds raised were used to refinance short term Working Capital Facilities including the Securitisation Facilities associated with the M1 and M5.

## 44. RECONCILIATION OF PROFIT / (LOSSES) AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Operating loss after income tax | **(152,184)** | (60,900) | **31,227** | 231,738 |
| Depreciation and amortisation | **311,575** | 258,065 | **-** | - |
| Net exchange differences | **(5,124)** | (1,470) | **-** | - |
| Tax benefits from subsidiaries | **-** | - | **(18,389)** | (232,837) |
| Non-cash share based payments expense | **2,746** | - | **-** | - |
| Non-cash finance costs | **19,647** | - | **-** | - |
| Share of loss of associates and joint venture partnership | **25,482** | 8,634 | **-** | - |
| Change in operating assets and liabilities | | | | |
| (Decrease)/increase in Concession Note liability | **16,997** | 74,489 | **-** | - |
| Increase/(decrease) in Promissory Note liability | **(66)** | (10,405) | **-** | - |
| Increase/(decrease) in creditors | **116,467** | (38,676) | **774** | 95 |
| (Increase)/decrease in debtors | **(134,542)** | (7,569) | **(26,711)** | 1 |
| (Decrease)/increase in provisions | **(6,124)** | 3,264 | **(223)** | 52 |
| Increase/(decrease) in provision for deferred income tax | **21,624** | (49,938) | **5,441** | - |
| Increase in loan to joint venture | **(61,098)** | - | **-** | - |
| Loans to/from related parties | **2,744** | (3,272) | **667** | (242) |
| Net cash inflow from operating activities | **158,144** | 172,222 | **(7,214)** | (1,193) |

## 45. NON-CASH FINANCING AND INVESTING ACTIVITIES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Net exchange differences | **(6,215)** | - | **-** | - |
| Distributions satisfied by the issue of stapled securities under the distribution reinvestment plan | **229,756** | 93,006 | **10,189** | 4,026 |
| Stapled securities issued as part of the acquisition of Sydney Roads Group [(1)] | **1,222,864** | - | **52,832** | - |
| Conversion of CARS to Transurban Stapled Securities | **373,702** | 56,266 | **22,213** | 2,722 |
| | **1,820,107** | 149,272 | **85,234** | 6,748 |

[(1)] One Transurban Stapled Security was issued for every 5.7 Sydney Roads Group Stapled Securities.

## 46. INTRA-GROUP GUARANTEES

As at 30 June 2007, the Transurban Group comprises Transurban Holdings Limited, Transurban Holding Trust and Transurban International Limited, traded and quoted on the ASX as one triple stapled security.

Under the stapling arrangement, each entity directly and/or indirectly supports each entity and its controlled entities within the group on a continual basis.

## 47. EARNINGS PER STAPLED SECURITY

| | Consolidated 2007 Cents | 2006 Cents |
|---|---|---|
| **(a) Basic earnings per security** | | |
| - Profit from continuing operations attributable to the ordinary equity holders of the company | **(14.0)** | (7.6) |
| - Profit from discontinued operations | **(3.2)** | - |
| **Profit attributable to ordinary equity holders** | **(17.2)** | (7.6) |
| **(b) Diluted earnings per security** | | |
| - Profit from continuing operations attributable to the ordinary equity holders of the company | **(14.0)** | (7.6) |
| - Profit from discontinued operations | **(3.2)** | - |
| **Profit attributable to ordinary equity holders** | **(17.2)** | (7.6) |

| | Consolidated 2007 $'000 | 2006 $'000 |
|---|---|---|
| **(c) Reconciliations of earnings used in calculating earnings per security** | | |
| *Basic earnings per security* | | |
| - Profit from continuing operations | **(123,746)** | (60,900) |
| - Profit from continuing operations attributable to minority interests | **(948)** | - |
| - Profit from continuing operations attributable to ordinary equity holders used in calculating basic earnings per security | **(122,798)** | - |
| - Profit from discontinuing operations | **(28,438)** | - |
| - Profit attributable to ordinary equity holders used in calculating basic earnings per security | **(151,236)** | (60,900) |
| *Diluted earnings per security* | | |
| - Profit attributable to ordinary equity holders used in calculating diluted earnings per security | **(151,236)** | (60,900) |

| | Consolidated 2007 Number | 2006 Number |
|---|---|---|
| **(d) Weighted average number of securities used as the denominator** | | |
| Weighted average number of Stapled Securities used as the denominator in calculating basic earnings per Stapled Security | **880,884,193** | 799,431,057 |
| *Adjustments for calculation of diluted earnings per security:* | | |
| Options | **-** | 869,176 |
| Weighted average number of Stapled Securities and potential Stapled Securities used as the denominator in calculating diluted earnings per Stapled Security | **880,884,193** | 800,300,233 |

### (e) Earnings per stapled security

As the stapling is a business combination by contract alone, the total ownership interest in Transurban International Limited is presented as a minority interest in the combined financial statements of Transurban Holdings Limited.

By virtue of the stapling arrangement, Transurban Holdings Limited, Transurban Holding Trust and Transurban International Limited have common equity holders with the effect that total equity belongs to the common equity holders. Therefore an alternative measure of earnings per stapled security has been calculated as follows which includes minority interest of Transurban International Limited.

| | Consolidated 2007 Cents | 2006 Cents |
|---|---|---|
| **(i) Basic earnings per security** | | |
| - Profit from continuing operations attributable to the ordinary common equity holders of the company | **(14.0)** | (7.6) |
| - Profit from discontinued operations attributable to the ordinary common equity holders of the company | **(3.2)** | - |
| **Profit attributable to ordinary common equity holders** | **(17.2)** | (7.6) |
| **(ii) Diluted earnings per security** | | |
| - Profit from continuing operations attributable to the ordinary common equity holders of the company | **(14.0)** | (7.6) |
| - Profit from discontinued operations attributable to the ordinary common equity holders of the company | **(3.2)** | - |
| **Profit attributable to ordinary equity holders** | **(17.2)** | (7.6) |

The earnings used in the diluted earnings per unit calculation are exclusive of any CARS related adjustments as they are anti-dilutive.

**Information concerning the classification of securities**

*(i)* *Stapled Securities*

All Stapled Securities are fully paid. They carry the right to participate in distributions and have been included in the determination of basic and diluted earnings per stapled security.

*(ii)* *Options*

Options granted to executives under the Transurban Executive Option Plan are considered to be potential stapled securities and have been included in the determination of diluted earnings per stapled security. The options have not been included in the determination of basic earnings per stapled security.

**Transurban Group**
**Directors' Declaration**

In the directors' opinion:

a) the financial statements and notes set out on pages 42 to 143 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Group's and the company's financial position as at 30 June 2007 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

c) the audited remuneration disclosures set out on pages 21 to 35 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief finance officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with separate resolutions of the directors of Transurban International Limited, Transurban Infrastructure Management Limited and Transurban Holdings Limited.

**David J Ryan AO**
Chairman

Edwards

**Kimberley Edwards**
Managing Director

Melbourne
21 August 2007

PRICEWATERHOUSECOOPERS

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# Independent auditor's report to the members of Transurban Holdings Limited

## Report on the financial report and the AASB 124 Remuneration Disclosures contained in the Directors' Report

We have audited the accompanying financial report of Transurban Holdings Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Transurban Holdings Limited and the Transurban Holdings Limited Group (the Group). The Group comprises the aggregation of Transurban Holdings Limited (THL) and the Transurban Holding Trust (THT) and their controlled entities for the year ended 30 June 2007, Transurban International Limited (TIL) and its controlled entities from the date of stapling on 3 January 2007 and Transurban Limited (TL) and its controlled entities up to the date of de-stapling on 2 January 2007.

We have also audited the remuneration disclosures contained in the director's report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 21 to 35 of the directors' report and not in the financial report.

## Directors' responsibility for the Financial Report and the AASB 124 Remunerations Disclosures contained in the Directors' Report

The directors of THL, TIL, and Transurban Infrastructure Management Limited, as Responsible Entity for THT, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with *Accounting Standard AASB 101 Presentation of Financial Statements*, that compliance with the Australian equivalent to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our web site http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Transurban Holdings Limited (the company) for the financial year ended 30 June 2007 included on the Transurban web site. The company's directors are responsible for the integrity of the Transurban web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

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## Auditor's opinion on the Financial Report

In our opinion:

(a) the financial report of Transurban Holdings Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

## Auditor's opinion on the AASB 124 Remuneration Disclosures contained in the Directors' Report

In our opinion, the remuneration disclosures that are contained in pages 21 to 35 of the directors' report comply with Accounting Standard AASB 124.

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T Goldsmith

Tim Goldsmith
Partner

Melbourne
21 August 2007