security holder review 2008

transurban

Enquiries and information

Enquiries about your Transurban stapled securities

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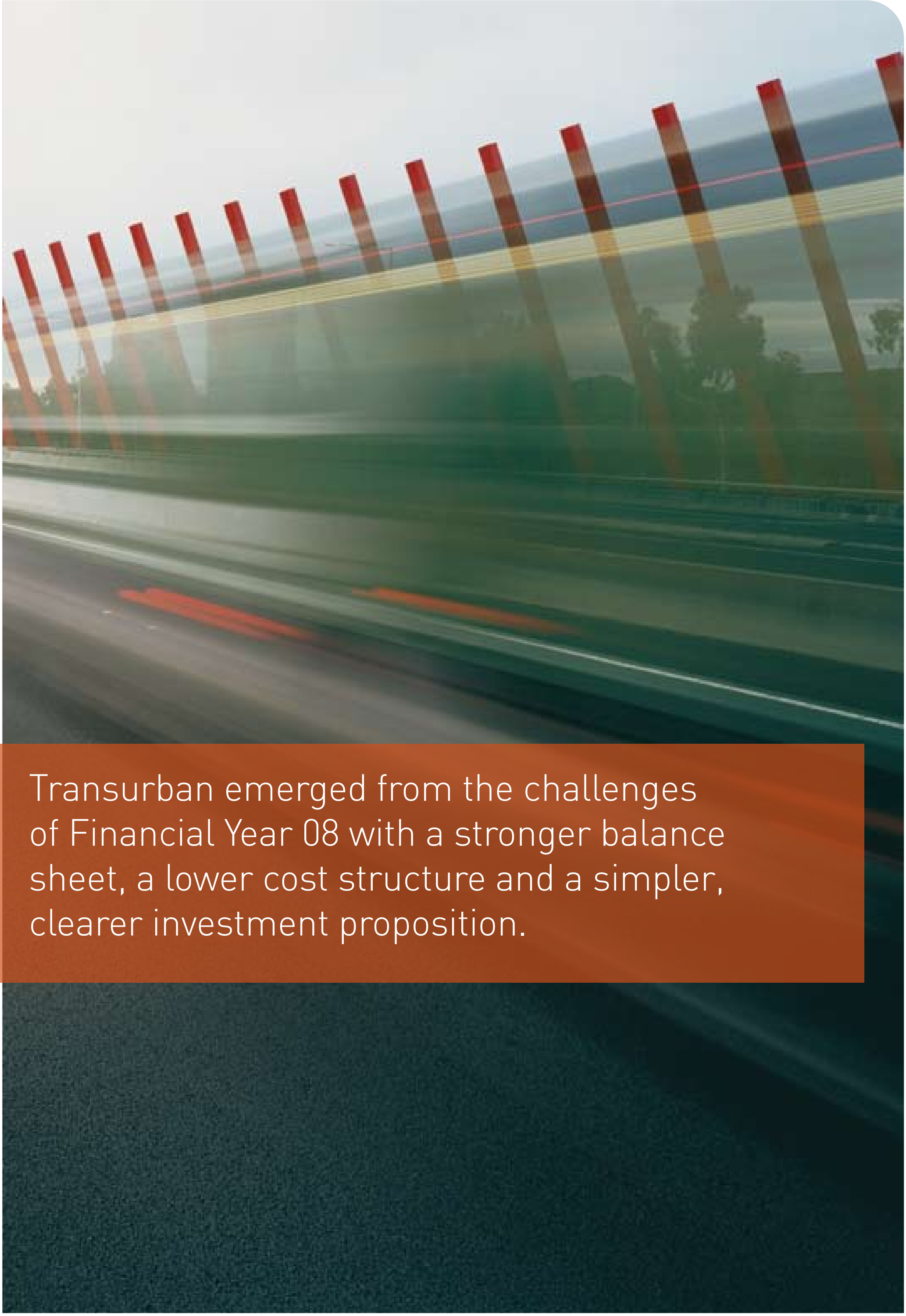
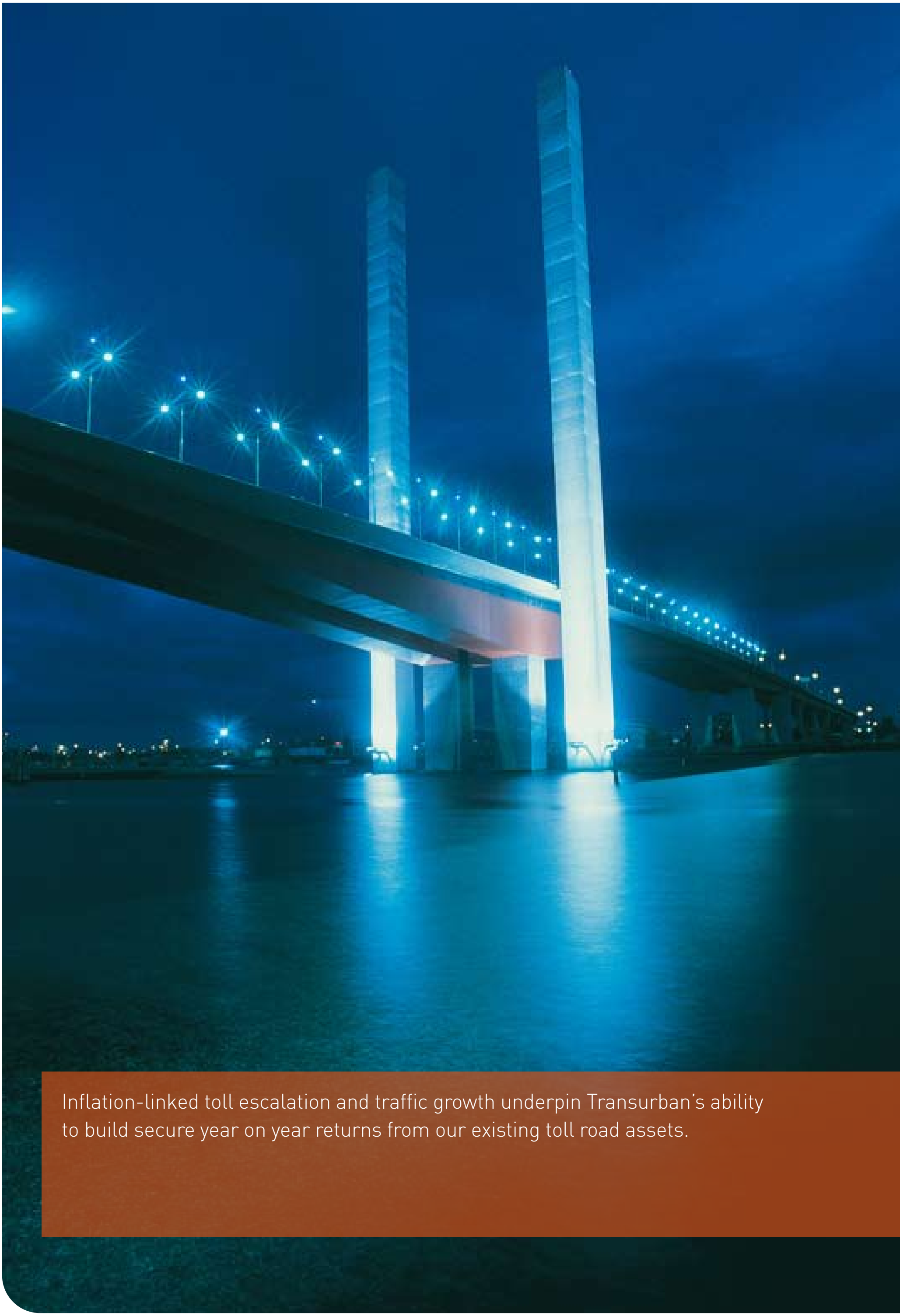


Transurban emerged from the challenges of Financial Year 08 with a stronger balance sheet, a lower cost structure and a simpler, clearer investment proposition.

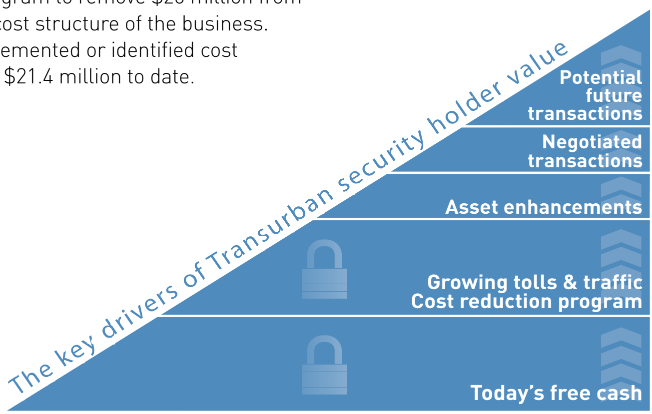


Inflation-linked toll escalation and traffic growth underpin Transurban's ability to build secure year on year returns from our existing toll road assets.

Security holder review 2008
The Transurban investment proposition

Transurban's appeal to investors is based on six key drivers of security holder value:

- **Today's free cash—**This is the bedrock of our secure returns and is currently being delivered by our existing portfolio of toll road assets. These assets are strongly cash generative. In Financial Year 2008, they delivered $766.6 million in toll and fee revenue and $316.5 million in free cash from operations on a proportional basis, adjusted to reflect the contribution of each asset in proportion to Transurban's equity ownership.
- **Growing tolls and traffic—**Most of our roads are in heavily populated urban areas where traffic continues to grow despite increases in the price of petrol. For example, CityLink has delivered compound annual toll and fee revenue growth of 7.1 per cent over the past seven years. The tolls we charge grow year on year at CPI or greater by agreement with government. Inflation-linked toll escalation and traffic growth underpin the resilience in our earnings growth.
- **Cost reductions—**We are driving costs out of the business to maximise the return to security holders. In June 2008 we announced a cost reduction program to remove $20 million from the ongoing cost structure of the business. We have implemented or identified cost reductions of $21.4 million to date.
- **Asset enhancements—**Upgrade projects on our existing roads demonstrate our ability to extract additional value. The Monash-CityLink-West Gate project now under construction will deliver a 7 per cent uplift across CityLink within five years of completion. Further asset enhancements are currently being explored on Hills M2 and the M5 Motorway in Sydney.
- **Negotiated transactions in the US—**Transurban's project pipeline in the United States is a further building block of enhanced security holder returns. We have one project in construction and another in exclusive negotiation with the Commonwealth of Virginia.
- **Potential future transactions—**There are a number of potential opportunities that could contribute to additional security holder return going forward. These include new opportunities in the North American market as well as incremental growth opportunities on our existing assets in Australia via acquisition of additional equity. Any potential investments will be evaluated according to our stringent investment criteria.



Security holder review 2008
Chairman's overview

David Ryan AO
Chairman

Conditions on global equity and debt markets were challenging for many companies in Financial Year 08 and Transurban was no exception. However, we emerged from the challenges with a stronger balance sheet, a lower cost structure and a simpler, clearer investment proposition.

The Transurban business continues to build off a bedrock of secure cash flows generated by our high quality portfolio of toll road assets. That has not changed despite a changing economic climate.

The changes in economic conditions highlight the resilient cash generative qualities of our business:

- Our overall traffic levels continue to grow
- Toll price increases are guaranteed.

Revenue and cash flow up

The underlying strength of Transurban's assets was evidenced by traffic and revenue growth across the Group's assets in Australia and North America.

This was reflected by the FY08 results.
On a proportional basis, adjusted to reflect the contribution of individual assets in proportion to Transurban's equity ownership:

- Toll and fee revenue was $766.6 million, 34 per cent higher than in FY07.
- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) was up 19 per cent to $498.6 million.
- Free cash from operations was 133 per cent higher at $316.5 million.

This result was fuelled by revenue growth on CityLink and Hills M2 and the first full year contribution of the assets acquired as part of the Sydney Roads Group transaction in April 2007.

Distributions

Investors received total distributions of 57 cents per security for the year and these were 70.87 per cent tax deferred.

In June 2008, the Group announced that future distributions will be more closely aligned with our operating cash flows. This means we will cease the practice of partially funding distributions from new debt.

This change to the capital strategy has given Transurban greater flexibility in determining how to pursue increased returns for security holders. It is a prudent strategy which has placed the company on a sound footing for the future.

Capital raising

A review of the business was initiated in April after Chris Lynch commenced as CEO. The review resulted in a capital restructuring of the Group in June, which included a capital raising to strengthen the Group's funding arrangements. This included:

- a $659 million placement of securities
- a Share Purchase Plan of up to $5,000 each to existing security holders, capped at a total of $100 million.

Debt

Gearing for the Group remains low for our sector and appropriately conservative in the current climate. At the time of the Group results announcement on August 27, gearing was 44.6 per cent.

We do not have to refinance any major debt until June 2009 when non-recourse facilities on Hills M2 and $85 million in bank debt are due. The credit quality of Hills M2 should ensure the refinancing goes smoothly.

Overall, the debt portfolio has a weighted average maturity of 10 years. As at 30 June 2008 our weighted average cost of debt was 6.82 per cent for Australian dollar debt and 5.46 per cent for US dollar debt.

For more information on our financial performance, see page 9.

Cost reductions

In June we also announced a cost reduction program to take $20 million a year out of the long term cost structure of the business.

We have so far implemented or identified actions to remove $21.4 million in costs. The savings come from the following:

- $13.1 million from reduced staff numbers
- $1.4 million from reduced property costs associated with moving out of premium business accommodation in Melbourne and Sydney
- $3 million related to reduced corporate costs in areas such as entertainment, travel and use of consultants
- $3.9 million related to reduced operating costs.

The reduction in staff numbers has resulted in more than 60 employees and contractors leaving the business. Redundancies are always difficult. However, employees have generally accepted the need to make cost improvements to the business. We wish to thank those people leaving for their contribution to Transurban's success to date.

Security holder review 2008

Chairman's overview

We are driving costs out of the business to maximise the return to security holders.

Capital Beltway

In December 2007, Transurban achieved a major landmark for our North American business. We reached financial close on an agreement with the Commonwealth of Virginia to construct and operate High Occupancy Toll (HOT) Lanes on the Capital Beltway—the ring road around Washington DC.

Transurban and our partner, the US construction group Fluor Corporation, will build two additional lanes in each direction on a 22 kilometre/14 mile section of the road. Construction began with a ground breaking ceremony in July and will take five years. Transurban will then operate the HOT Lanes for 75 years, giving drivers the choice to pay a toll for faster, more reliable travel.

Transurban's stake in the Capital Beltway project is held through DRIVe, our co-investment vehicle in North America. DRIVe holds 90 per cent of the equity in the Beltway project, and Transurban currently holds 75 per cent of DRIVe.

This project further establishes us as one of the key operators in the North American market. It demonstrates we can successfully work with governments to deliver sophisticated outcomes for the benefit of road users.

Australian growth highlights

In Australia, work continues on the Monash-CityLink-West Gate upgrade which began in August 2007. This will positively impact our cash flows when it is completed in 2010. The forecast is for a tangible uplift in cash flow per security from FY11.

In Sydney, we are negotiating the right to widen Hills M2 to increase traffic and revenue. The NSW Government plans to reach in-principle agreement with Transurban by the end of December 2008.

Conclusion

Transurban has an attractive suite of assets which serve investors well, particularly in current markets.

It also has embedded growth options which will sustain the business in the longer term.

The Group's skills as an owner–operator have allowed it to work with governments to find ways to unlock additional upside in its asset portfolio.

In FY09 the focus for the Group is to run the existing assets well, and pursue growth opportunities according to our strict investment criteria.

We value your continued support.

David Ryan AO
Chairman

A new business framework

By Chris Lynch, Chief Executive Officer

Since becoming CEO, I have introduced a new management framework for the business, illustrated at right. Within Transurban, it is known as 'the wheel'. As you can see, it is focussed on total return for our security holders. At its heart are the values that underpin the way we do business—**honesty, integrity, humility** and **accountability**.

The first segment of the wheel is **safety**. It has to be—and is—our first priority. Our workplaces have to be safe for our employees and our roads must be safe for our customers.

The next segment is **people**. We cannot do anything without people. We need them to operate and grow the business. We have to provide the right environment for our people to do their very best.

Excellence is achieved by coming to work every day determined to do things better than the day before—and trying to be the best we can at everything we do.

Financial discipline means we have to earn a return for every dollar we spend. We shouldn't spend money on anything that doesn't generate value for our investors.

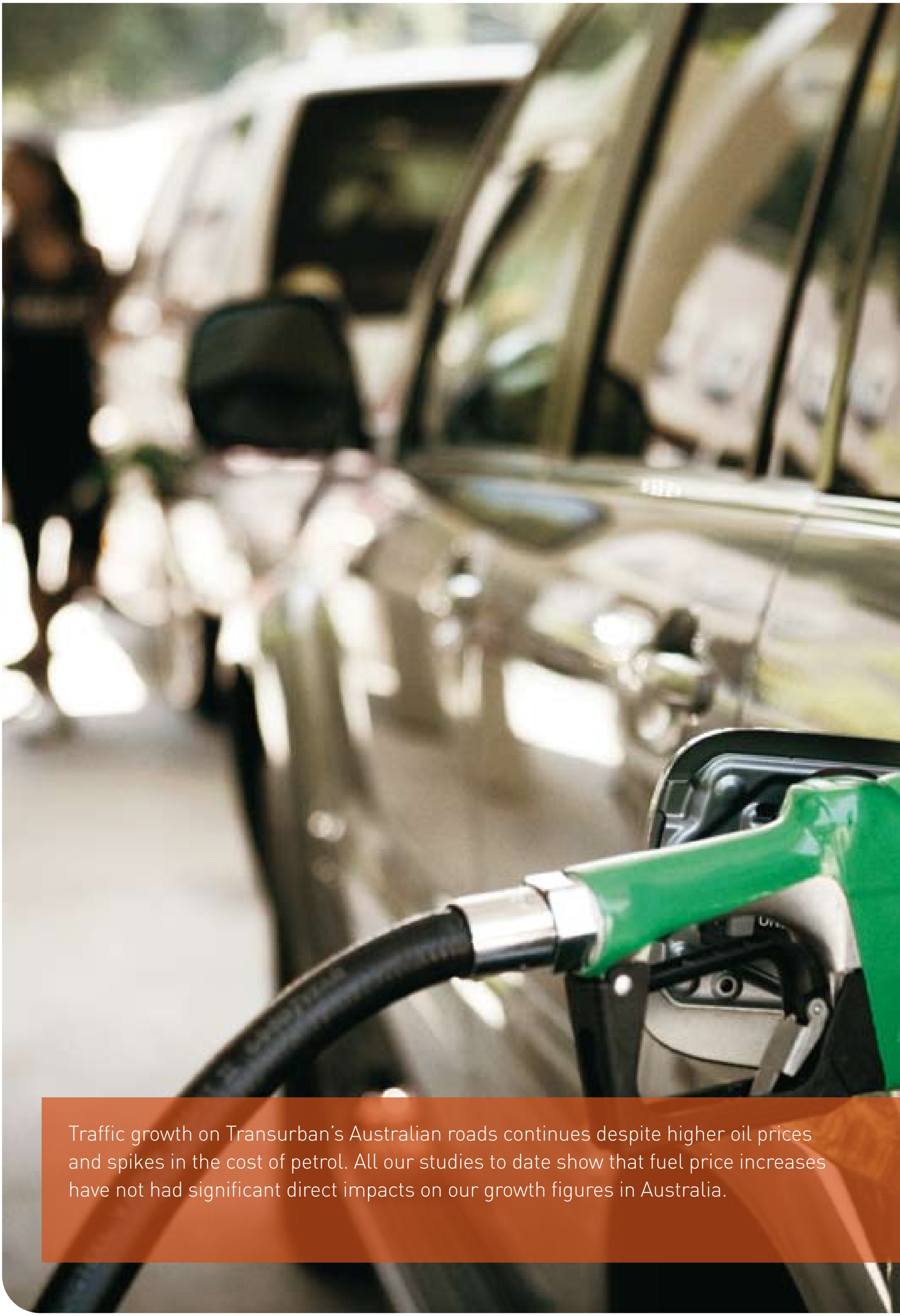
Growth is the sign of life in any organisation. We have great assets at Transurban, but we have to demonstrate that we can grow the business and add value.

Our business relies on many other people and organisations—our government clients, the communities our roads serve, our security holders, financial markets generally and debt providers. So good **relationships** are a must.

Sustainability is the final segment of the wheel—we have to be part of the solution to the sustainability issues facing our communities, not part of the problem.

Together, how we perform in all these segments will be reflected in our corporate reputation and the returns we generate for investors.

I am pleased to say that the new framework has been embraced by our employees. I hope you, our security holders, will also support it.



Traffic growth on Transurban's Australian roads continues despite higher oil prices and spikes in the cost of petrol. All our studies to date show that fuel price increases have not had significant direct impacts on our growth figures in Australia.

Security holder review 2008
Financial performance

Key results (proportional)

	FY08	FY07
Toll & fee revenue ($m)	766.6	572.6
EBITDA ($m)	498.6	419.9
Free cash from operations ($m)	316.5	135.9

Three key metrics illustrate Transurban's financial performance in FY08: higher toll and fee revenue, increased EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) and improved free cash flows from operations.

Group toll and fee revenue, adjusted to reflect the proportion of Transurban's ownership in each of its assets, rose 34 per cent to $766.6 million. This included the first full year contribution of the Sydney Roads Group assets acquired in June 2007.

The Group's net loss after tax was $140.5 million compared to a $152.2 million loss the year before. Transurban will continue to report accounting losses for several years, as we depreciate our assets.

The Group believes it is more relevant to consider earnings metrics before depreciation is taken into account. This is because depreciation is a non-cash item. Transurban has fixed concession lengths on all its assets and all maintenance and repair costs for the life of the concessions are factored into the cash flows of the business.

As such, EBITDA is considered a more appropriate measure of toll road performance. On a proportional basis, adjusted to reflect the contribution of individual assets in proportion to Transurban's ownership, EBITDA rose 19 per cent to $498.6 million.

Free cash flow is the other important metric on which to gauge the performance of the Group.

In FY08 free cash from operations was $316.5 million, a 133 per cent increase on the previous year.

Revenue resilience

Transurban has recorded consistent revenue growth on all of its assets over the years it has owned them. For example, CityLink in Melbourne has delivered 7.1 per cent compound annual growth in toll and fee revenue over the past seven years.

Traffic growth on Transurban's roads has continued despite higher petrol prices. We have been working with Australia's National Institute of Economic and Industry Research to better understand the relationship between economic factors and toll road patronage. To date our studies indicate that the direct impact of fuel prices in isolation has not been significant in Australia.

CityLink in Melbourne has delivered 7.1 per cent compound annual growth in toll and fee revenue over the past seven years.

Security holder review 2008
Assets

Traffic and revenue growth FY08

	Traffic	Revenue
Melbourne, Australia		
CityLink	↑ 2.6%	↑ 9.2%
Sydney, Australia		
Hills M2	↑ 4.5%	↑ 7.7%
Westlink M7	↑ 12.5%	↑ 14.9%
Eastern Distributor	↑ 4.5%	↑ 7.5%
M4 Motorway	↑ 3.9%	↑ 4.3%
M5 Motorway	↑ 3.2%	↑ 6.0%
Virginia, USA		
Pocahontas 895	→ steady	↑ 7.7%

CityLink

- Traffic volume for the year was 247.9 million transactions, and toll and fee revenue was $362.8 million.
- Customer account numbers grew by 7 per cent to 864,000 at 30 June 2008.
- Several major safety projects were completed during the year. The initiatives included an upgrade of the visual safety features in the tunnels and the installation of variable speed signs.

Hills M2

- Traffic volume for the year was 33.8 million trips, and toll and fee revenue was $120.6 million.
- The NSW Government has announced it plans to reach agreement with Transurban by the end of 2008 on our proposal to widen the road and add additional ramps.

Westlink M7

- Traffic volume for the year was 41.8 million trips, and toll and fee revenue was $153.2 million.
- Transurban acquired an additional 2.5 per cent stake in the M7 in August 2008, taking the Group's total interest to 50 per cent.
- The customer base of Roam—the tolling and customer service provider for M7—grew by 18.8 per cent.

Eastern Distributor

- Traffic volume for the year was 17.4 million trips, and toll and fee revenue was $73.7 million.
- In September 2007 Transurban acquired an additional 3.8 per cent of the Airport Motorway Group, the owner of the concession for the Eastern Distributor. This takes our investment to 75.1 per cent.

M4 Motorway

- Traffic volume for the year was 40.6 million trips, and toll and fee revenue was $88.5 million.
- In August 2008 car toll prices rose for the first time in eight years. In May heavy vehicle tolls rose for the first time in three years.
- The NRMA—the body representing New South Wales motorists—released a travel time survey in September 2007 showing that a trip on the M4 is more than twice as fast as the free alternative route that runs next to it.
- A $15 million upgrade to the M4 road surface was completed in March 2008.

M5 Motorway

- Traffic volume for the year was 42.3 million trips, and toll and fee revenue was $163.6 million.
- Transurban is assisting Interlink Roads (operator of the M5) in developing plans to widen the road, subject to government approval. Transurban owns 50 per cent of the M5.

Pocahontas 895

- Traffic on the 895 grew strongly during the first half of FY08 but dropped during the second half of the year due to a combination of a toll price increase, higher fuel prices and weaker economic conditions in the US. Despite this, toll and fee revenue still increased over the previous year, delivering US$13.7 million.
- Transurban is upgrading the existing electronic tolling system on the 895 to improve efficiency and service.

Work crews apply a stencil pattern to the walls of CityLink's Domain Tunnel as part of the Tunnel Safety Project.

Growth

The Capital Beltway HOT Lanes are strongly value accretive for Transurban investors, earning revenue over a 75 year concession.

Transurban's Capital Beltway project will provide welcome relief to congestion that slows traffic for up to eight hours a day.

Capital Beltway HOT Lanes (Virginia, USA)

Transurban's Capital Beltway HOT Lanes project in Virginia reached two major milestones during the year.

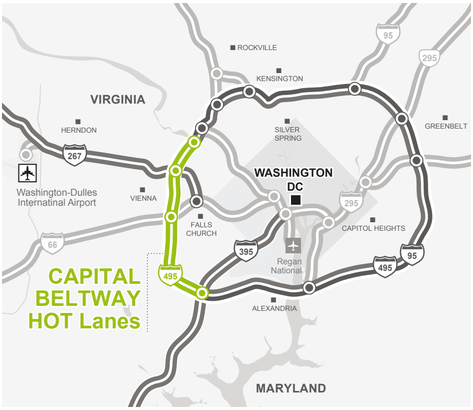
In December 2007, Transurban, construction partner Fluor and the Commonwealth of Virginia reached financial close on the project. And in July 2008 construction started as scheduled on the HOT Lanes, which are expected to be completed in 2013.

The project involves creating High Occupancy Toll Lanes on a 22 kilometre/14 mile section of the Capital Beltway—the ring road around Washington DC and one of the most heavily congested corridors in the US. Under the joint agreement Transurban will operate the lanes for 75 years.

DRIVe—Transurban's North American co-investment vehicle—is contributing 90 per cent of equity and Fluor is contributing 10 per cent. The combined total investment is US$350 million.

The remainder of the project funding will come from state and federal sources. Virginia is making a capital contribution, and the US Government is providing concessional loans.

Transurban is in an exclusive negotiating position with the Commonwealth of Virginia on another HOT Lanes project, the I-95/395.



What are HOT Lanes?

- HOT Lanes are tolled lanes that operate alongside existing highway lanes to provide faster, more reliable travel for motorists who choose to pay the toll. Buses and carpools of three or more people travel for free.
- Tolls on the Capital Beltway HOT Lanes will fluctuate with traffic conditions to regulate demand and keep the lanes congestion free—even during peak hours. When traffic increases, tolls will go up. When traffic decreases, tolls will go down.
- HOT Lanes have been used successfully in several other US states, including California and Texas.

Airport Connector Road (Virginia, USA)

Transurban is well advanced in plans to appoint a contractor to design and construct a road connecting Pocahontas 895 with Richmond International Airport.

The new road will be 2.5 kilometres/1.6 miles long. It will provide a more direct route to the airport, which has experienced rapid growth in the past few years.

Transurban agreed to build the connector when it took over management of Pocahontas 895 in 2006 subject to receiving a federal loan, which was approved in 2007. Construction on the Airport Connector Road is due to begin in early 2009 and finish in 2011.

Monash-CityLink-West Gate Upgrade (Melbourne, Australia)

Construction on the Monash-CityLink-West Gate Upgrade started in Melbourne in September 2007.

Transurban and the Victorian Government are partners on the project, which includes major improvements to CityLink's Southern Link and the two adjoining state-managed freeways. Together, the roads form an essential 75 kilometre west-east corridor for freight and commuters. The upgrade is a prime example of the type of project that will add value to a Transurban asset.

The project will increase traffic flow capacity along the entire corridor with extra lanes and a high-technology freeway management system. It is expected to lift traffic on CityLink by 7 per cent within five years of completion.

The CityLink section of the Monash-CityLink-West Gate Upgrade is expected to be finished in mid-2009, and the entire project is due to be completed in late 2010.

Transurban is required to report its carbon emissions in Australia. However, we will NOT be required to take part in Australia's carbon emission trading scheme because our emissions are well below the threshold level. The Group is monitoring the climate change debate in the United States.

Security holder review 2008
Sustainability

Transurban Group's sustainability focus in FY08 was climate change, particularly during the development of Australia's carbon emissions trading scheme.

Under the Government's proposed scheme, Transurban will not be required to take part. This means the Group does not have to surrender emissions permits since our direct greenhouse gas (GHG) emissions are well below the threshold level.

But Transurban or its contractors will be required to report GHG emissions under the National Greenhouse and Energy Reporting System, known as NGERS.

Under NGERS Transurban or its contractors will have to report emissions for CityLink in Melbourne and potentially the Eastern Distributor in Sydney. The Group already has systems in place to do this. Transurban began work more than two years ago on measuring GHG emissions and we have been refining our systems ever since.

Most of our emissions are generated in the operation of CityLink, with the majority coming from electricity purchased for the operation of the ventilation systems in the Burnley and Domain tunnels.

Transurban does not yet have GHG emissions data from the Eastern Distributor ventilation systems. That data was not available to the Group in 2007 because we had only recently acquired the Sydney Roads Group. But work is under way to ensure the data is collected and we comply with NGERS.

On CityLink we have had some success in reducing emissions—and costs—by changing configuration of the tunnel ventilation systems. We have reduced energy consumption by 10 per cent without compromising the effectiveness of the systems.

Transurban is now developing a formal climate change strategy for the Group which will pull together all the work we have done so far. It will identify and manage the risks and opportunities to the business from climate change and emissions trading. The climate change strategy will be front and centre in our overall approach to sustainability.

We have already had external validation of our work on sustainability. In 2006, 2007 and 2008 we were listed in the Dow Jones Sustainability Indexes (DJSI) World List of high performing companies.

We were also listed in the Carbon Disclosure Project's (CDP) Australia and New Zealand leadership list in 2006 and 2007. The CDP is run by the Investor Group on Climate Change, which represents global institutional investors with a combined US$57 trillion of assets under management. CDP results for 2008 had not been published at the time of this report.

Security holder review 2008
Your Board of Directors

Left to right: Christopher J S Renwick AM, Jeremy G A Davis AM, Geoffrey O Cosgriff, Christopher J Lynch, Lindsay Maxsted, Susan M Oliver and David Ryan AO

Christopher J Lynch BComm, MBA, FCPA
Executive director

Chris became CEO of Transurban in April 2008. He joined the Group from one of the world's largest resources and mining companies, BHP Billiton. He held a series of senior appointments there, including five years as Chief Financial Officer. His last position at BHP Billiton was Executive Director and Group President—Carbon Steel Materials. Prior to that time Chris spent most of his career with Alcoa Inc, where he served as Vice President and Chief Information Officer, CFO Europe, Managing Director of KAAL Australia Ltd and in financial leadership roles. He has experience in senior management with global corporations operating across multiple markets and in the development and operation of major projects with large up-front capital requirements. Chris is a Commissioner of the Australian Football League.

David Ryan AO BBus, FCPA, FAICD
Chairman and independent non-executive director

David has a background in banking and operational business management. He has held senior executive management positions in investment banking and industry, and served as a chairman or non-executive director with a number of publicly listed companies. He is currently a non-executive director of Lend Lease Corporation Ltd and non-executive Chairman of Tooth & Co Ltd and ABC Learning Centres Ltd. David is Chair of the Board's Nomination Committee.

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

Geoff has extensive experience in the information technology industry and was the Managing Director of MITS Ltd for 10 years. He has also held executive management roles with Melbourne and Metropolitan Board of Works and Logica Australia Pty Ltd. He is a Council Member for Leadership Victoria and is actively engaged in a number of executive coaching and mentoring assignments. Geoff is Chair of the Board's Remuneration Committee.

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

Jeremy is a Professor Emeritus of the University of New South Wales after retiring from the Australian Graduate School of Management in 2006. He was a management consultant with the Boston Consulting Group for 10 years and is a former Director of the Australian Securities Exchange. He is currently a director of SP AusNet. Jeremy is Chair of the Board's Audit Committee.

Kimberley Edwards BE, MAdmin (Bus), FIE (Aust), MAICD
Managing Director until his retirement in April 2008

Kim has held senior management positions on major commercial and infrastructure projects in Australia, the UK and the Middle East. He initially joined Transurban to lead the successful bid for the CityLink project in Melbourne, and then spearheaded the development of the Group into new toll road opportunities in Australia and the US.

Lindsay Maxsted Dip Bus, FCA
Independent non-executive director

Lindsay joined the Board in March 2008 following his retirement as CEO of KPMG Australia. He became a partner at KPMG in 1984 and was appointed CEO of KPMG Australia in 2001. Lindsay is Chairman of VicRacing Pty Ltd, Managing Director of Align Capital Pty Ltd, and a non-executive director of Westpac Banking Corporation. He is also Honorary Treasurer of Baker IDI Heart and Diabetes Institute. Lindsay is a member of the Board's Audit and Sustainability committees.

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

Susan's experience covers private and public sector senior management roles, strategic and technology consulting and business development. She is a former Senior Manager of Andersen Consulting and a former Managing Director of the Australian Commission for the Future Ltd. Susan was formerly a non-executive director and Chair of the Remuneration Committee of MBF Australia Ltd, and is currently an executive director and owner of wwite Pty Ltd. Susan chairs the Board's Risk Committee.

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

Christopher has over 35 years of experience in mining, operational business management and law. He is the non-executive Chairman of Coal & Allied Industries Ltd, and a non-executive director of Downer-EDI Ltd and Sims Group Ltd. Christopher is the Chair of Transurban's Sustainability Committee.

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