# asx release

27 October 2008

**Transurban AGM 2008**

**Chairman's Address**

**Transurban Chairman David Ryan and Managing Director Chris Lynch**

**Monday, 27 October 2008**

**The RACV Club - Melbourne**

Please see the attached address to be delivered by the Chairman and the Managing Director of Transurban to security holders at the Group's Annual General Meetings to be held at 5.30pm this evening, Monday 27 October 2008.

**Elizabeth Mildwater**
Company Secretary

**Investor & media enquiries**
Henry Byrne +61 (0) 438 564 245



**Transurban Group**
Transurban International Limited
ARBN 121 746 825
Transurban Holdings Limited
ABN 86 098 143 429
Transurban Holding Trust
ABN 30 169 362 255
ARSN 098 807 419
email@transurban.com.au
www.transurban.com.au

Level 43 Rialto South Tower
525 Collins Street Melbourne
Victoria 3000 Australia
Telephone +613 9612 6999
Facsimile +613 9649 7380

Level 37 Gateway
1 Macquarie Place Sydney
NSW 2000 Australia
Telephone +612 9254 4900
Facsimile +612 9254 4990

**Transurban AGM 2008 - Chairman's Address**

**DAVID RYAN**

Good evening ladies and gentlemen, welcome to the Transurban AGM. My name is David Ryan – Chairman of the Transurban Group.

Before we get underway, I'd like to remind you of the evacuation procedures that will operate in the unlikely event of an emergency. You may have seen the diagram on the screen behind me showing evacuation points as you were coming into the room and getting yourself settled. But just in case, here it is again. The evacuation warning is a continuous repeating signal, rising to a high pitch. If it sounds, we will be advised by floor wardens which evacuation point to use as we exit the building.

The wardens will also tell us where to assemble once we leave the building. Can the wardens please stand up and wave so everyone knows who you are.

This evening we are holding three meetings in one. This is the AGM for:

- Transurban Holdings Limited
- Transurban International Limited, and
- Transurban Holdings Trust.

We have a quorum, so I declare the meeting open.

The Notice of Meeting was distributed to all of you with the Annual Security Holder Review. With your consent, I will take those documents as read.

I will now introduce the directors and the company secretary. From your left to right:

- Mr Christopher Renwick
- Mr Lindsay Maxsted
- Ms Susan Oliver
- Professor Jeremy Davis
- Mr Chris Lynch, our Chief Executive Officer
- Ms Elizabeth Mildwater, our Company Secretary
- And Mr Geoff Cosgriff.

As you can see, there are a few new faces up here. We have a new Chief Executive Officer. A new Non Executive Director and a new Company Secretary. And on the screen – although not on the stage – a new Chief Financial Officer, Tom Honan.

Chris Lynch joined Transurban in February 2008 and succeeded Kim Edwards as Chief Executive Officer in April. I paid tribute to Kim's pivotal role in Transurban's history and success at last year's AGM. This evening I can report that Chris has already made a big impact, demonstrating strong leadership in difficult times and difficult markets.

Lindsay Maxsted was appointed to the Board in March 2008 following his retirement as Chief Executive Officer of KPMG Australia. From this month, he has taken over as Chairman of our Audit Committee. Lindsay's appointment as a Director was part of the Board renewal program which we have been pursuing in recent years.

Elizabeth Mildwater became Company Secretary in May 2008 and was appointed to the Executive Committee in August.

Tom Honan was appointed Chief Finance Officer soon after and took up his position earlier this month. Tom came to us from the same role at Computershare. He is a proven business leader with more than 20 years experience across general management, finance, strategy and consulting.

The Board renewal program is continuing. Susan Oliver and Chris Renwick are standing for re-election today. However both have indicated that they will retire from the Board within the next year.

Susan has been a Director since June 1996 and has decided it is time to move on. It was not an easy decision for her – she is passionate about Transurban. And she has played an absolutely critical role in the Board's oversight of risk and sustainability. She has also focussed on excellence in customer service and stakeholder engagement. However she is also passionate about best practice in corporate governance and recognises that non executive directors cannot go on forever.

Chris Renwick joined the Board in July 2005. He has been an important contributor and we will miss his strategic focus and sound judgement. He took over from Susan as Chair of the Board's Sustainability Committee – a role he has pursued with great vigour and energy. Unfortunately for us, Chris has decided to wind back a number of his commitments.

Both Chris and Susan have agreed to stand for re-election so we can complete the formal search process already underway for a new director or directors.

I would like to thank them both for their service and ask you to join me in recognising their contribution to Transurban.

The new faces represent a year of major change for Transurban. But the biggest change is in the economic and market environment in which we operate. At last year's AGM, I talked about the impact of escalating defaults in the sub-prime mortgage market in the United States. I referred to the ripple effects then being felt in capital markets across the world. Well, as you know, those ripples have become a tsunami. But the first thing to say is that events of the past year have demonstrated the quality of Transurban's toll road assets and the resilient nature of the cash flows they generate.

Traffic on our roads is up, toll prices increase at the inflation rate or better and our revenue rose substantially in Financial Year 2008. Revenue has continued to rise in the new financial year. In short, our assets continue to deliver for security holders, despite what is happening in the capital markets. The fundamentals of our business are sound.

Despite this, Transurban – like most companies – has had to adjust to the new realities in global debt markets. Many of you will know that in 2004, Transurban announced a re-gearing strategy. At that time, we decided to take advantage of favourable conditions on the debt markets to effectively bring forward a share of future revenue flows on our roads for the benefit of current security holders. We were able to increase distributions to investors by borrowing against future revenues. We decided on this strategy in times of easy credit and low debt costs. Those times have changed.

Going forward it would have been much more difficult to borrow money to part fund distributions, and the cost of debt would also have been significantly higher than in the past.

Chris Lynch began a review of the business following his appointment as Chief Executive Officer in April. The Board and management were considering the findings of this review as conditions continued to deteriorate in the debt and equity markets. We decided we had to be sure that Transurban could navigate more volatile market conditions. Both the Board and senior management came to the view that the 2004 regearing strategy was no longer sustainable. We also decided that we needed to strengthen the balance sheet and simplify the investment proposition.

In June 2008, we made a major announcement that saw Transurban take a lead in our sector in responding to the changing market environment:

- We made a $659 million placement of securities, raising new capital for the business
- We underwrote our Distribution Reinvestment Plan to 75%, delivering $239 million
- We announced a Share Purchase Plan to allow all our investors to participate in the capital raising. This raised around $10 million
- We confirmed a distribution of 29 cents per security for the six months to 30 June 2008
- And we announced that distributions beyond that date will be reduced to more closely align to free cash flow.

I know that some of our investors have been concerned about these changes, particularly the decision on future distributions. I recognise the difficulties this could create for some of you. It was not something we decided lightly. We considered it long and hard. In the end however, the Board came to a unanimous view that the decisions we made were in the long term interests of security holders.

As a business, we are now well placed to ride out the turmoil on financial markets.

I now ask our Chief Executive Officer to make his presentation.

**CHRIS LYNCH**

Thank you David. This is my first AGM with Transurban and it is a great pleasure to be here.

When I became CEO, the first thing we did as a leadership team was to launch a review of our entire business, as the Chairman has noted. We had a small team working on this over a few months. The team examined a range of critical issues, including the capital structure and capital map for the Group, the way we assess potential investments and the organisational structure and skill base. A major focus was cash coverage of distributions to investors – the extent to which we can pay distributions from the cash we generate on our existing assets.

The review's first conclusion was that we have an excellent suite of assets in place generating cash every day. However, it also found that the Transurban business model needed to change for a number of reasons:

- We were not able to fund distributions to investors from our cash flow
- Funding costs were increasing as debt markets deteriorated
- The regearing strategy was unsustainable in the current market
- And we had limited flexibility to fund growth opportunities or optimise our investment portfolio because of the impact on cash coverage of distributions.

The decisions that flowed from the review addressed these issues. The Transurban balance sheet is now on a much more solid footing. The capital raising ensures we have adequate

funding for our pipeline of growth projects. Aligning distributions more closely with operating cash flow further reinforces the strength of our capital position. We have set the business up for a more sustainable long term future and removed the need to borrow money in uncertain debt markets at every future distribution.

The credit crisis has turned a spotlight on corporate debt levels and refinancing risk. Transurban's gearing is appropriately conservative in the current climate – in fact it is low compared with our sector peers. Our interest cover ratio is 2.4 – that means our earnings would cover interest payments 2.4 times over. And we will no longer be borrowing money to fund distributions. We do not have to refinance any major debt until June next year when two facilities are due:

- Non-recourse facilities on Hills M2 for $459 million, and
- A small working capital facility of $85 million.

We have commenced early stage work on this now.

I want to reinforce a point the Chairman made: Transurban has a suite of high quality assets at varying stages of maturity delivering strong, inflation protected cash flows. Those assets are the bedrock of our business and the investment proposition that we offer. Later in this presentation, the Chairman will introduce a video that takes you through the investment proposition step by step.

First though, I want to talk about costs in our existing business. A key task for our management team is to drive out costs and increase the efficiency with which we do business. We announced in June that we would cut $20 million from the ongoing cost structure of the business by the end of Financial Year 2009. You can see on the slide behind me that we have either made the savings or identified where they will come from – in fact we have exceeded our target. Over $13 million came from a round of redundancies with more than 60 employees and contractors leaving the business. We have reduced the size of the Australian workforce by 10% and the associated costs by 14%. We are well advanced in moving out of premium office real estate which will deliver $1.4 million in annualised savings. We are taking out corporate costs of $3 million by reducing the use of external consultants, cutting spending on entertainment, and reducing travel. Operating costs are being reduced by $3.9 million.

The aim on costs is to eliminate any unnecessary spending between our roads and our security holders. When we spend a dollar, it should only be because we have to, or because it adds value.

The management team is now focussed on expanding the wedge of free cash available for our investors by growing revenues and containing costs.

Transurban's roads are in heavily populated urban areas where traffic continues to grow despite increases in the price of petrol. Our concession contracts with governments lock in toll price increases at the inflation rate or better. Growing tolls and traffic deliver baseline revenue growth.

For example, CityLink has delivered compound toll and fee revenue growth of 7.1% per annum over the past seven years. By keeping pressure on costs, we can grow the wedge you see on the screen. That is a primary focus for the new executive committee announced in August to lead the business. The new executive team brings together people with long

and deep experience with Transurban, emerging talent from within the company, and some external recruits who bring new perspectives to the table.

I turn now to the growth side of the business. In the United States, our Capital Beltway HOT Lanes project reached financial close in December 2007. We finalised senior debt funding in June this year, a significant achievement in a difficult credit environment. Preliminary construction is under way.

The Capital Beltway is the ring road around Washington DC. It is very heavily congested for many hours each day. The project involves the development of High Occupancy Toll Lanes on a 22 kilometre section of the Beltway. It will be a key driver of growth for Transurban in the medium to long term. Construction is due to be completed in 2013 and Transurban will operate the lanes for 75 years.

Our North American co-investment vehicle – DRIVe – holds 90% of the equity in the project. Through DRIVe, we are also in an exclusive negotiating position in Virginia on another HOT Lanes project, the 1-95/395. The 1-95 runs south to Richmond where Transurban operates Pocahontas 895. This month we appointed a contractor to design and build a road from Pocahontas 895 to the Richmond International Airport. The new link – known as the Richmond Airport Connector - will be 2.5 kilometres long. Transurban agreed to build the connector when we took over management of Pocahontas 895 in 2006, subject to receiving a Federal loan which was approved in 2007.

Here in Melbourne, construction on the Monash-CityLink-West Gate upgrade began in September 2007. This is a prime example of the type of project that can add value to a Transurban asset. We are partnered with the Victorian Government on the project. It involves building extra lanes and installing a freeway management system on the Southern Link section of CityLink and the two adjoining State owned roads. The upgrade will be completed in 2010. We are forecasting a 7% uplift in traffic across CityLink by 2015 - over and above regular growth - as a result of the project.

There are also opportunities to enhance our assets in Sydney. The most advanced of these is the widening of Hills M2, in which we hold a 100% stake. Negotiations on this with the NSW Roads and Traffic Authority are currently under way. The other enhancement we are working on in Sydney is the widening of the M5 in which we have a 50% stake. Both the widening projects have the potential to deliver a positive valuation impact to the Group.

I want to touch on one other issue that attracted some questions at last year's meeting – sustainability. The Group's sustainability focus in Financial Year 2008 was on climate change, particularly the development of Australia's carbon emissions trading scheme. The Government has outlined details of the scheme and we will not be required to take part as our direct greenhouse gas emissions are well below the scheme's threshold levels.

However, Transurban or its contractors will be required to report emissions for CityLink under the National Greenhouse and Energy Reporting System, known as ENGERS. Most of our emissions come from the electricity we use to operate tunnel ventilation systems. We began work on systems to measure emissions more than two years ago and we will be ready to comply with the reporting requirements.

Transurban has received external validation for our efforts on sustainability from two organisations respected by major institutional investors. We have been listed for the third year in a row in the Dow Jones Sustainability Indexes World List of high performing companies. Also for the third year, we have been listed in the Carbon Disclosure Project's climate leadership index for Australia and New Zealand. The project is a global initiative run

by 385 leading institutional investors. It collects information from more than 1,550 major corporations around the world on their response to climate change.

I want to thank Transurban's employees for their ongoing commitment and loyalty through what has been a period of significant change. They have accepted the need to reduce the cost base of the business, including the need for redundancies. Overwhelmingly, they want to get on with the job and continue to run and grow the business.

Employees have embraced a new business framework focussed on total security holder return. At the heart of the framework are the values that underpin the way we want to do business:

- Honesty
- Integrity
- Humility
- Accountability.

On the screen behind me, you will see the different elements or segments of the framework – known within Transurban as "the wheel".

The first segment of the wheel is **safety** – our roads must be safe for our customers and our workplaces must be safe for employees.

We need **people** to operate and grow the business and we have to provide the right environment so they can do their very best.

**Excellence** is about coming to work every day determined to do things better than the day before and always being open to learning.

**Financial discipline** picks up on something I said earlier – we shouldn't spend money on anything that doesn't generate value for investors. We also have to be very disciplined about how we put security holders' money to work.

**Growth** is the sign of life in any business. We have to demonstrate we can grow the business and add value for the communities in which we operate, but - most importantly - for our security holders.

Good **relationships** are a must, because our business relies on so many other people and organisations:

- Our government clients
- The communities our roads serve
- Our security holders
- Financial markets generally, and
- Debt providers.

**Sustainability** is the final segment of the wheel. We want to be successful for the long haul. We have to be part of the solution to the sustainability issues facing our communities, not part of the problem.

I will now hand back to the Chairman to complete the presentation.

**DAVID RYAN**

Thank you Chris.

I will now quickly recap the results for Financial Year 2008, released to the market in August.

The underlying strengths of our assets are reflected in the following figures – all which are on a proportional basis. They are adjusted in line with the contribution of individual assets in proportion to Transurban's equity ownership.

- Toll and fee revenue – adjusted to reflect the proportion of Transurban's ownership in each of its assets – was $766.6 million, 34% higher than in the previous year. This included the first full year contribution of the Sydney Roads Group assets acquired in June 2007.
- Earnings Before Interest, Tax, Depreciation and Amortisation – EBITDA – was 19% higher at $498.6 million
- Free cash from operations was 133% higher at $316.5 million.

The Group's net loss after tax was $140.5 million, down 7.6% on the previous year. Transurban will continue to report accounting losses for several years as we depreciate our assets.

In our view, earnings figures before depreciation are a better guide for investors to gauge how we are doing. This is because depreciation is a non-cash item. We have fixed concession lengths on all our assets. All maintenance and repair costs are factored into the cash flows of the assets.

There will be a vote on the company's remuneration report later in the formal business of the meeting. However, I would like to make some comments now.

The remuneration report reflects an extraordinary year in which we had a change of leadership of the Group with the retirement of Kim Edwards, our former Managing Director, who retired from the business in April.

His remuneration and benefits totalled $16.6 million in Financial Year 2008. Clearly this was a one-off event.

There were a number of different elements in this remuneration. All amounts were subject to board review and approval. The specific components included:

- Amounts payable under his contract with the company
- Statutory entitlements such as annual leave and long service leave which had accrued during his lengthy service with the company
- Bonuses relating to successful delivery of projects in Australia and North America, in which he played an integral part
- And a bonus related to the achievement of major strategic milestones and smooth leadership transition for the business prior to his departure.

Kim Edwards was the founding Managing Director of Transurban and held the position for more than 13 years. He was instrumental in starting and growing the business. He was the Managing Director when we listed on the stock exchange in 1996 with a market capitalisation of $500 million. By the time he retired, Transurban had a market capitalisation of more than $7 billion. He delivered for our investors and his remuneration reflected that.

There is one other remuneration matter I would like to talk about. We have abolished one element of executive remuneration – the Business Generation Incentive Plan. It had been used to reward employees who developed new business opportunities with cash bonuses paid after financial close on a project. In future we will reward employees with short term incentives that can be paid at different stages of an asset's lifecycle including operations, not just at financial close.

As the Chief Executive Officer mentioned, we want to play you a short video that summarises the Transurban investment proposition. The video builds on what we have said earlier about the underlying strengths of our existing assets.

You can see from that video that Chris Lynch and his leadership team are focussed on the safety of our customers and employees, on cost control, and what they have to do to build security holder value.

If I can sum up before moving to questions:

- This business is built on bedrock of secure cash flow generated by a strong underlying portfolio of assets.
- The defensive qualities of the business are reinforced by a baseline growth that comes from rising tolls and traffic.
- The toll increases are locked in by agreement with governments and the traffic growth has proven to be resilient.
- In the near to medium term, there is further cash uplift promised by the upgrade that is taking place on the Monash-CityLink-West Gate corridor.
- In the medium term there are enhancements to our Sydney network in the pipeline and negotiated projects that we have in North America.
- Finally, the obvious need for road infrastructure in the US is expected to help drive further growth in the business in the longer term.
- We will also continue to monitor any further investment opportunities, based solely on value uplift for our security holders.
- We believe these components will deliver growth for our investors in the short, medium and longer term.

Thank you.