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Transurban

16 September 2021

TRANSURBAN FINANCE FY21 ANNUAL REPORT

Attached is an announcement made by Transurban Finance Company Pty Limited (ASX: TA1) (**Transurban Finance**) which is provided for the information of Transurban Finance noteholders.

Transurban Finance has notes listed on the Singapore Exchange.

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asx release

16 September 2021

TRANSURBAN FINANCE FY21 ANNUAL REPORT

In accordance with ASX Listing Rule 4.7A, please see attached the Annual Report of Transurban Finance Company Pty Limited for the period ended 30 June 2021.

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This announcement is authorised by Fiona Last, Company Secretary.

Transurban

2021

ANNUAL REPORT

Transurban Finance Company Pty Ltd

ABN 65 098 539 452

Contents

Directors’ report

The Directors of Transurban Finance Company Pty Ltd (the Company or TFC) present their Directors’ Report on the Company for the year ended 30 June 2021 (“FY21”).

Directors

The following persons were Directors of the Company during the financial year and up to the date of this Directors’ Report, unless otherwise stated:

Executive directors

Henry Byrne

Michele Huey (appointed 9 November 2020)

Adam Watson (resigned 9 November 2020)

Principal activities

TFC’s principal activity is to obtain and manage the external funding requirements of the Transurban Group[1]. Funding is sourced both from domestic and international debt capital markets, as well as through bank term debt facilities. All borrowings are secured by first ranking charges granted by the Company, Transurban Finance Trust, Transurban Holdings Limited, Transurban Holding Trust, Transurban International Limited and Transurban Limited.

TFC has a credit rating of ‘BBB+’ (S&P) / ‘Baa1’ (Moodys) / ‘A-‘ (Fitch). External borrowings are on-lent to related parties within the Transurban Group to fund the Group’s development projects and for general corporate purposes. All related party loans advanced by TFC are interest bearing, with interest typically charged on terms equivalent to the rate at which TFC has borrowed from external financiers.

1 *Transurban Holdings Limited and its controlled entities, which includes the other members of the stapled group being Transurban International Limited and its controlled entities and Transurban Infrastructure Management Limited as responsible entity of Transurban Holding Trust and its controlled entities*

Operating and financial review

Figures used for calculating percentage movements in the Directors' report are based on whole numbers.

Financial performance

The Company recorded a profit before tax of $8,979 thousand for the financial year ended 30 June 2021 (2020: loss before tax of $14,005 thousand).

The following tables summarise the Company's financial performance and key financial measures:

Financial metrics	2021 $'000	2020 $'000	Movement $'000	Movement %
Finance income	486,382	443,597	42,785	9.6%
Finance costs	(477,384)	(457,602)	(19,782)	(4.3)%
Net finance income/(costs)	**8,998**	**(14,005)**	**23,003**	**164.2%**

Debt metrics	2021	2020
FFO/Debt[1]	8.9%	7.0%
Senior Interest Cover Ratio (SICR) (historical ratio for 12 months)	2.8x	3.8x
Weighted average maturity (years)	7.1	6.7
Weighted average cost of debt		
AUD debt	4.4%	4.7%
USD debt	4.6%	4.3%
CAD debt	4.6%	4.6%

Net finance income increased by $23,003 thousand as a result of foreign exchange gains and a reduction in expected credit losses on related party receivables, which were partially offset by a net unrealised loss from remeasurement of derivative financial instruments. The net unrealised loss from remeasurement of derivative financial instruments was a consequence of the significant appreciation in the Australian dollar relative to other currencies during the period.

The Company's main source of income is finance income received on loans advanced to related parties, with the interest typically charged on terms equivalent to the rate at which TFC has borrowed from external financiers. As the majority of the Company's borrowings are swapped back to Australian dollars, including the swapping of any associated interest rate commitments back to fixed interest rates, there is minimal variability in finance costs and finance income expected in the future.

Financing activities

Key funding activities undertaken during the period were as follows:

- In September 2020, the Company issued US$900,000 thousand of senior secured 10.5 year notes in the 144A / Reg S market. All proceeds from the notes were swapped into Australian dollars and the interest exposure was fully hedged for the term of the notes.
- In April 2021, the Company increased the size of its existing $1,650,000 thousand syndicated bank facility to $2,650,000 thousand. The new debt tranche has a tenor of 2.5 years.

Debt maturities during the period were as follows:

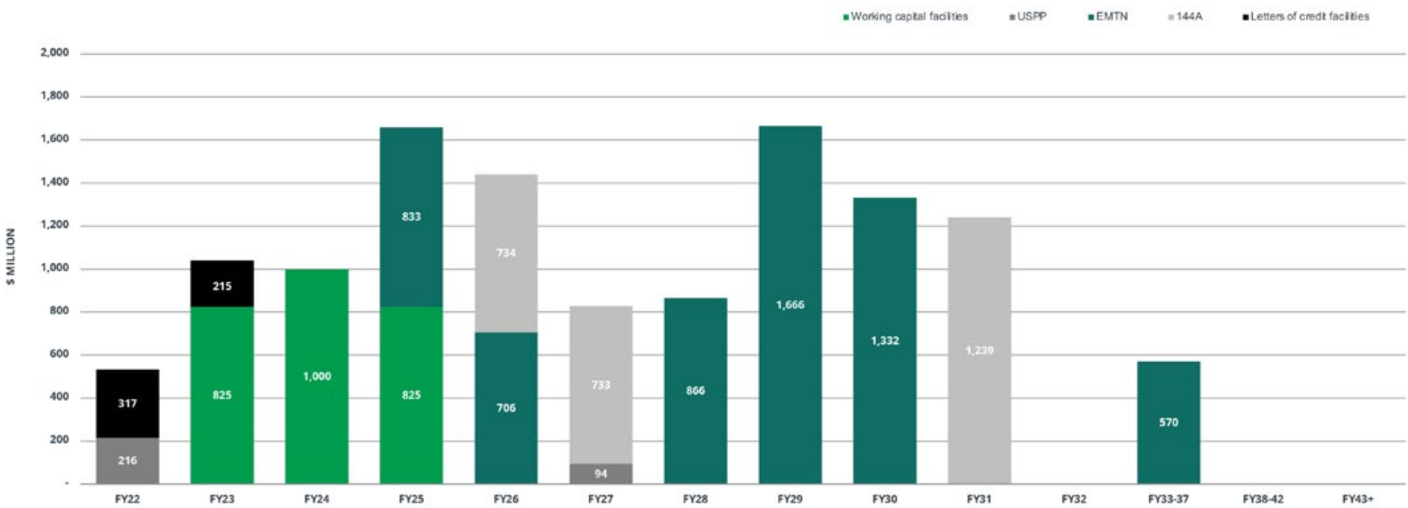
- In July 2020, the Company redeemed EUR 500,000 thousand senior secured seven year notes under its Euro Medium Term Note Programme that were otherwise due to mature on 8 October 2020.
- In August 2020, the Company repaid US$156,500 thousand in US private placement notes at their maturity on 10 August 2020.
- In April 2021, the Company cancelled bank debt facilities of $1,530,000 thousand established in March and April 2020.

1 *Based on S&P methodology as calculated for the Transurban Group. FFO is calculated as statutory EBITDA of the Transurban Group (where EBITDA equals revenue minus operating expenses, net of maintenance provision) plus dividends from investments; minus interest paid, tax paid, and stock compensation expense. Debt is calculated as statutory drawn debt net of cash, foreign currency hedging and other liquid investments for the Transurban Group. FFO/Debt calculation methodology may be subject to adjustments in future periods*

Capital summary

The Company's weighted average cost of AUD debt decreased during the period to 4.4%, with the tenor increasing to 7.1 years. Owing to the prudent management of the debt book, the only debt due to mature in the next 12 months is a US Private Placement issuance due in November 2021, which will not be refinanced and will be repaid via the receipt of proceeds from the associated related party loan. This is in line with the Company's funding plan which aims to reduce funding and liquidity risk, maintain high investment grade credit metrics and maintain or grow diversity of funding sources.

Figure 1: Maturity of TFC's Debt by Financial Year (A$ millions) as at June 30, 2021 [1,2]



1 The full value of debt facilities is shown. Debt is shown in the financial year in which it matures

2 Debt values are shown in AUD as at 30 June 2021. CAD, EUR, NOK and USD debt are converted at the hedged rate where cross currency swaps are in place. USD debt is converted at the spot exchange rate 0.7522 at 30 June 2021 where no cross currency swaps are in place. CAD debt is converted at the spot exchange rate 0.9317 at 30 June 2021 where no cross currency swaps are in place

Strategy and risk management

The Company's strategy is underpinned by maintaining high investment grade credit metrics, which provide access to global debt capital markets and efficient pricing on long-term debt funding. This strategy assists in maintaining and growing the diversity of funding sources and extending the average tenor of the Company's debt by continuing to target long-term capital markets for term funding.

While the long-term strategy of the Company remains unchanged, the ongoing impact of COVID-19 is uncertain and represents a significant risk to the global economy. Despite the impact of COVID-19 on the global economy, the Company has been successful in accessing credit markets at market rates since the impacts of COVID-19 were first observed.

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The financial risk management function is carried out centrally under the policies approved by the Transurban Group Board. Operations are actively reviewed to identify and monitor all financial risks and hedging instruments are used where appropriate to provide risk mitigation. The Transurban Group Board is informed on a regular basis of any material exposures to financial risks.

The Company seeks to minimise funding risks through its prudent hedging policies for both interest rates and foreign currencies. By maintaining hedging at close to 100% the Company is able to minimise fluctuations in financing costs, thus providing greater certainty in relation to its operating cash flow profile. TFC maintains undrawn facilities to maintain short term flexibility and enable the Company to meet financial commitments in a timely manner.

Risk exposures are continuously monitored through review of cash flows, price movements, market analysis and ongoing communication within the Company. Measurement of financial risk includes consideration of both positive and negative exposures, existing hedges and the ability to offset exposures where possible.

Further information on the Company's approach to financial risk management is included within the financial statements for the year ended 30 June 2021 at note B9 Derivatives and financial risk management.

Dividends

No dividends were paid to members during the financial year and no dividends have been recommended for payment by the Directors since 30 June 2021.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company during the financial year.

Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected, or may significantly affect, the Company's operations, the results of those operations, or the Company's state of affairs in the future years.

Environmental regulation

The Company has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulations under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed. There were no significant breaches reported during the financial year.

Indemnification and insurance

Each officer (including each Director) of the Company is indemnified, to the maximum extent permitted by law, against any liabilities incurred as an officer of the Company pursuant to agreements with the Company. Each officer is also indemnified against reasonable costs (whether legal or otherwise) incurred in relation to relevant proceedings in which the officer is involved because the officer is or was an officer.

The Company has arranged to pay a premium for a Directors and officers liability insurance policy to indemnify Directors and officers in accordance with the terms and conditions of the policy.

This policy is subject to a confidentiality clause which prohibits disclosure of the nature of the liability covered, the name of the insurer, the limit of liability and the premium paid for this policy.

Proceedings on behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company, nor any application made under section 237 of the *Corporations Act 2001*.

Non-audit services and auditor independence

PricewaterhouseCoopers continues in office as the Company's external auditor in accordance with section 327 of the *Corporations Act 2001*.

Fees associated with audit services have been borne by a related party, Transurban Limited. The Transurban Group has an External Auditor Independence policy that is intended to support the independence of the external auditor by regulating the provision of services by the external auditor. The external auditor will not be engaged to perform any service that may impair or be perceived to impair the external auditor's judgement or independence.

The Transurban Group Board has considered the position and, in accordance with advice received from the Transurban Group Audit and Risk Committee, is satisfied that the provision of the non-audit services during the reporting period 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 PwC did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- The Transurban Group Audit and Risk Committee reviewed the non-audit services to ensure they did not impact the impartiality and objectivity of the auditor.
- None of the services undermined 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 Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21 and forms part of this Report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This Directors' Report is made in accordance with a resolution of Directors.

Henry Byrne
Director

Melbourne
16 September 2021

Remuneration report

Who is covered by the Report

This report covers the Key Management Personnel (KMP) of Transurban Finance Company Pty Limited (the Company) who have the authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

The Company is a wholly-owned subsidiary of the Transurban Group. The KMP are also Executive KMP of the Transurban Group and all remuneration disclosures relate to the roles held by the KMP within the Transurban Group. The KMP do not receive any additional remuneration for their duties and responsibilities held within the Company. References to Transurban, the Group or Transurban Group throughout the remuneration report, refer to the Transurban Group of companies and employees, not the Company as a standalone entity.

All references to financial results, remuneration results including Short Term Incentive (STI) and Long Term Incentive (LTI) outcomes and targets, remuneration framework and remuneration governance are in relation to the Transurban Group. The Company does not remunerate its KMP nor does it have its own remuneration framework.

For further information, please refer to the 2021 Transurban Corporate Report or visit transurban.com.

The KMP of the Company are Executive Directors of the Company and the Transurban Chief Executive Officer. They are also incumbents to Executive KMP roles within Transurban.

The following table lists the Company's KMP during FY21. All KMP held their positions for the duration of FY21 unless otherwise stated.

Current Executive KMP

Executive Director and Chief Executive Officer (CEO)
Scott Charlton

Group Executive New South Wales
Michele Huey (from 9 November 2020)

Group Executive Victoria, Strategy and Corporate Affairs (until 28 March 2021), Group Executive Victoria and Strategy (from 29 March 2021)
Henry Byrne

Former Executive KMP

Chief Financial Officer
Adam Watson (until 9 November 2020)

Our remuneration governance framework at a glance

Board

Sets and oversees the implementation of the Remuneration Policy.

Remuneration, People and Culture Committee

Assists the Board in fulfilling its responsibilities in relation to remuneration, people and culture policies and practices.

The Committee is responsible for reviewing, and where appropriate making recommendations to the Board on:

- remuneration of Non-executive KMP
- remuneration for the CEO and other senior executives
- remuneration budgets for all employees
- remuneration strategies, policies, practices, and disclosures generally, in relation to the context of the remuneration framework.

The Committee comprises Non-executive Directors, all of whom are independent. The current members are Samantha Mostyn (Chair), Neil Chatfield (Chair of the Audit and Risk Committee), and Jane Wilson. Further details regarding the Committee are set on page 84 of the 2021 Transurban Corporate Report.

As a matter of practice, the Chair of the Board (Lindsay Maxsted) also attends the Committee meetings. Committee papers are provided to all members prior to meeting to enable timely, considered and effective decision making.

The Committee may request additional information from management or external advisors where required.

The Committee uses a range of inputs when assessing performance and outcomes of Executive KMP, including both what and how results have been achieved. Detailed performance assessments as well as audited financial results, external remuneration benchmarking and an overarching view to the organisation's values and risk profile are taken into account. The Committee and the Board review relevant information and exercise discretion, and may adjust proposed remuneration outcomes, including application of malus and clawback.

External Advisors

The Committee may seek and consider advice from independent remuneration consultants where appropriate.

Any advice from consultants is used to guide the Committee and the Board, but does not serve as a substitute for thorough consideration by Non-executive Directors.

Protocols are in place for the independent engagement of remuneration consultants and the provision of remuneration recommendations.

During FY21, remuneration consultants provided benchmark data and insights on market practices only to the Committee. No remuneration recommendations relating to KMP were provided by consultants.

Management

Provide management information on financial, customer and risk matters which may impact remuneration.

Where appropriate, the CEO and the Group Executive, People and Culture attend Committee meetings, however they do not participate in formal decision making or in discussions involving their own remuneration.

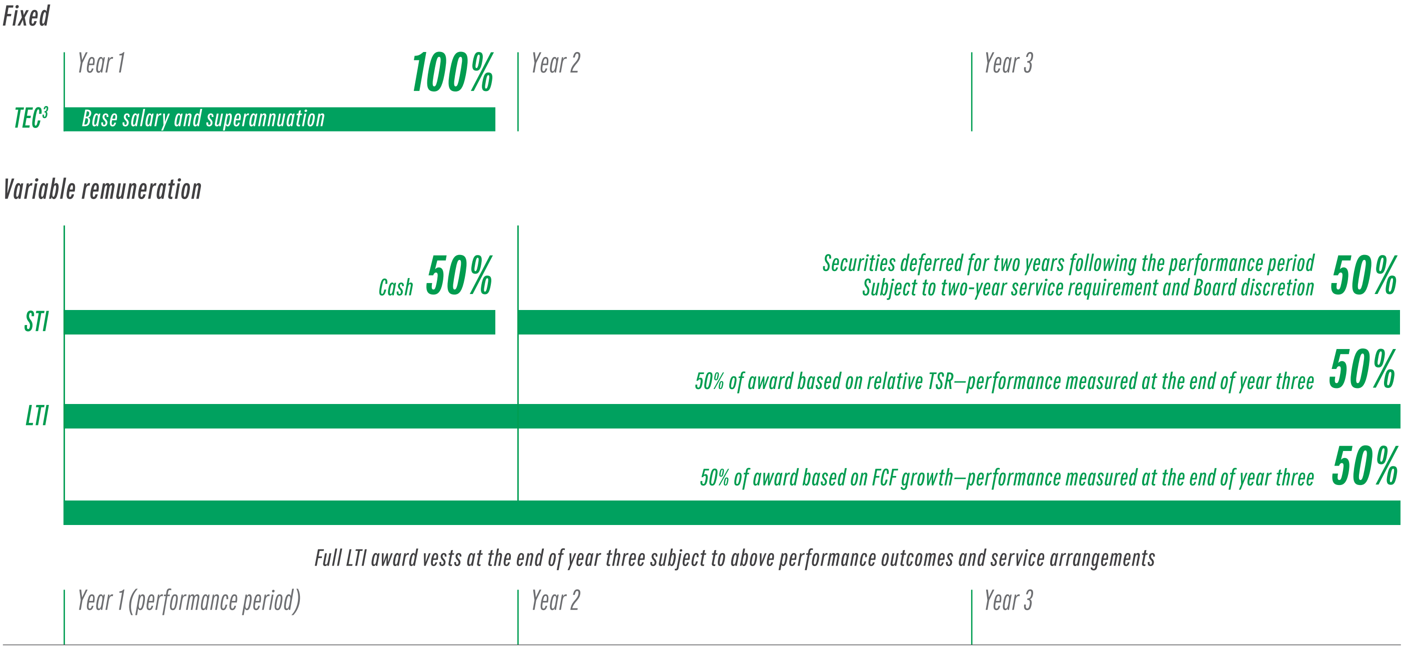
Our executive remuneration strategy

At Transurban, our remuneration strategy is designed to support and reinforce our business strategy, including sustainable long-term growth. The remuneration components that are at risk require the successful execution of that strategy in both the short and long term. Our strategic drivers are reflected in our STI and LTI performance measures so that business performance, security holder outcomes and senior executive remuneration are directly aligned.

Our purpose	To strengthen communities through transport			
Our strategy	Provide sustainable transport solutions that offer choice, reliability, safety, transparency and value			
Our focus areas	Stakeholder engagement	Optimal networks	Delivery and operations	Disciplined investment
Remuneration strategy	A total remuneration framework designed to attract, motivate and retain the most skilled, experienced and capable senior executives by rewarding them for delivering on our business strategy and creating long-term, sustainable value for stakeholders			
Remuneration principles	Aligns the interests of our people with stakeholders, particularly security holders and partners, and importantly considers the impact on the community	Attracts, motivates and retains the best talent with capabilities that enable our competitive value proposition	Balances financial and non-financial performance which aligns to our purpose, values and risk appetite	Pays fairly and appropriately for operational performance and long-term value creation

	Fixed remuneration	Short Term Incentive (STI)	Long Term Incentive (LTI)
Remuneration components (and delivery mechanisms)		Target performance defined by a combination of individual and group KPIs has the potential to achieve a 100% outcome. Opportunity for outperformance exists	Long-term business performance measures determine opportunity for vesting of security grants
	Salary including statutory superannuation	**STI delivery mechanism** Annual incentive awarded 50% in cash and 50% as two-year deferred Transurban securities	**LTI delivery mechanism** Annual award granted as three-year performance awards (i.e. rights) for the FY21 Plan. A transition to a four year performance period will commence for the FY22 Plan
Purpose	*To provide market competitive remuneration to attract and retain the best talent in Australia and internationally for Transurban's current and future priorities, taking into consideration roles and experience*	***Current year performance*** *Designed as a lever to deliver our strategic and operational priorities, with a level of outperformance that reflects our values and supports our purpose* *Rewards for strong collective and individual contributions to overall performance of Transurban and where deferral applies provides an additional retention incentive and enables clawback optionality*	***Long-term sustainable performance*** *Designed to focus on the achievement of sustainable longer-term value creation; the performance period better reflects security holder expectations and enables the application of malus and clawback*
Link to performance	*Individual key role accountabilities, responsible for delivering on local priorities aligned to the business strategy*	*Provides for differentiation of pay based on both individual contribution and overall business performance*	*Motivates the consideration of longer-term implications of present-day decisions*
Performance measures	*Key role accountabilities, size and complexity weighed up against individual responsibilities, knowledge, skills and experience*	***Financial*** ***Proportional EBITDA*** *(20%),* ***Proportional Net Costs*** *(20%)* ***Non-Financial*** ***Individual KPIs*** *(50%)* ***Health, Safety and Environment*** *(10%)*	***Relative Total*** ***Shareholder Return*** *(TSR) (50%)* ***Free Cash Flow*** *(FCF) per security growth rate (50%)* *The FY21 Plan (with the performance period 1 July 2020 to 30 June 2023) has Relative TSR as a single performance measure*
Performance targets/ hurdles	*Measures are clearly aligned to security holder returns and value creation*	*Measures are clearly aligned to security holder returns and value creation*	***Relative TSR:*** *Board review of companies included in comparator group* ***FCF:*** *budget-setting process, plus Board considerations as to quantifiable risks and opportunities*
Further alignment to security holders	Minimum security holding requirements for Group CEO and KMP (equal in value to fixed remuneration excluding superannuation; five-year period to accumulate)	STI deferral into securities	Measures are clearly aligned to security holder returns and value creation
Governance	The Board holds discretion with regard to the setting of targets and hurdles, as well as decisions regarding performance and remuneration outcomes; this includes taking into account any relevant significant items	Strict protocols are in place for engaging independent remuneration consultants and advisors	

Overview of executive remuneration framework[1,2]



Executive KMP remuneration

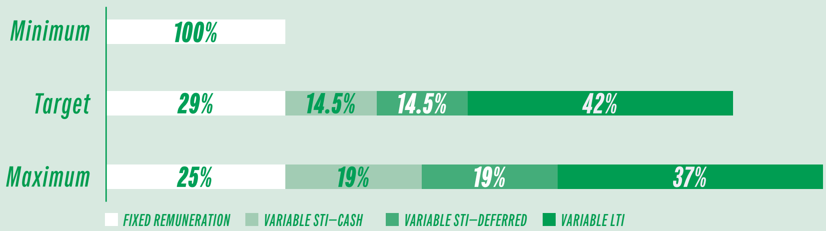
Remuneration mix

The remuneration mix is designed to achieve a balanced reward for achievement of short-term objectives and the creation of long-term sustainable value. The amount of remuneration actually received by Executive KMP each year depends on the achievement of business and individual performance.

In FY21 fixed remuneration (TEC) was set with reference to the market median, using the ASX 10–30 companies as the primary reference (ASX 30 companies effective 1 July 2021). Remuneration packages (including TEC levels) are reviewed by the Remuneration, People and Culture Committee taking into consideration an individual's role, experience and performance, as well as relevant comparative market data provided by remuneration consultants. TEC levels are also reviewed on a change in role.

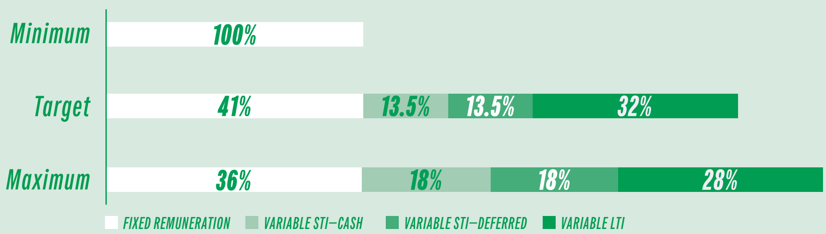
Remuneration mix for the CEO

The following diagram shows the minimum, target and maximum total remuneration opportunity for the CEO. Each component is determined as a percentage of the total remuneration package.



Remuneration mix for other Executive KMP

The following diagram shows the minimum, target and maximum total remuneration opportunity for the other Executive KMP. Each component is determined as a percentage of the total remuneration package. As the dollar opportunity is dependent on the TEC for each Executive KMP, the diagram is for illustrational purposes only. Base salary and superannuation earned by each Executive KMP is disclosed on page 20.



Minimum: *consists of TEC which is comprised of base salary and statutory superannuation*

Target: *consists of TEC, target STI (cash and deferred components) which totals 100% of TEC for the CEO and 67% of TEC for other Executive KMP and target LTI (face value of 147% of TEC for the CEO and 80% for other Executive KMP). The potential impact of future security price movements is not included in the value of deferred STI awards or LTI awards*

Maximum: *consists of TEC, maximum STI (cash and deferred components) which totals 150% of TEC for the CEO and 100.5% for other Executive KMP and maximum LTI (face value of 147% of TEC for the CEO and 80% for other Executive KMP). The potential impact of future security price movements is not included in the value of deferred STI awards or LTI awards. The maximum opportunity represented above is the most that could be awarded to Executive KMP. It does not reflect any intention to award that amount*

1 The FY21 Plan (performance period 1 July 2020 to 30 June 2023) and the FY22 Plan (performance period 1 July 2021 to 30 June 2025) both have Relative TSR as a single performance measure

2 Effective FY22 the performance period will be four years with the FY22 LTI Plan being a transitional plan

3 Total Employment Cost—includes base salary and statutory superannuation

Our business performance

Financial highlights for FY21

The highlights and business performance presented in the section relate to the Transurban Group. As stated on page 6, performance and remuneration targets are based on the Transurban Group results and not the standalone Company.

COVID-19 continued to impact the Transurban Group's financial performance in FY21, with government responses and mandatory measures to contain the virus having an impact on traffic. On a portfolio basis, the business benefitted from its diversified market position, with stronger performance in Sydney and Brisbane providing some offset to impacts in Melbourne and North America.

In addition, new assets that opened during the year in Sydney (the M8 and M5 East, and NorthConnex) made a positive contribution to traffic, revenue and EBITDA.

The Transurban Group recorded proportional toll revenue of $2,486 million for the financial year ended 30 June 2021, a decrease of 0.3% on the prior corresponding period. Proportional EBITDA excluding significant items of $1,836 million for the financial year ended 30 June 2021, a decrease of 2.8% on the prior corresponding period.

In addition, the Transurban Group recorded a statutory gain after tax of $3,726 million from the sale of Transurban Chesapeake from which net proceeds of $2,175 million was generated. This gain is not included in Proportional EBITDA or the calculation of Free Cash Flow.

Overview of Group performance

The variable (or 'at risk') remuneration of the CEO and other Executive KMP is linked to the Transurban Group's performance by using measures based on the operating performance of the business. The following table shows the Transurban Group's performance over the past five financial years including metrics used to determine components of STI and LTI awards.

Five-year performance		FY21	FY20	FY19	FY18	FY17
Proportional EBITDA excluding significant items	$m	1,836	1,888	2,016	1,796	1,629
Proportional Net Costs excluding significant items	$m	483	475	450	406	380
Free cash per security	Cents	46.7[5]	54.0[4]	57.1[3]	56.8	59.6[2]
Distribution paid per security	Cents	36.5	47.0	59.0	56.0	51.5
Security price at 30 June[1]	$	14.23	14.13	14.74	11.97	11.85
Market capitalisation	$b	38.96	38.65	39.43	26.63	24.32
TSR at 30 June	%	3.4	(1.0)	30.9	6.4	3.7

1 *The opening share price in FY17 was $11.99*

2 *The FY17 free cash flow of 59.6 cents per security included 8.5 cents per security relating to a capital release from NorthWestern Roads Group. Excluding this capital release, the FY17 free cash flow was 51.1 cents per security*

3 *The FY19 free cash flow of 57.1 cents per security included 4.6 cents per security relating to a capital release from the NorthWestern Roads Group and 6.7 cents per security from a capital release from Transurban Queensland. Excluding these capital releases, the FY19 free cash flow was 45.8 cents per security*

4 *The FY20 free cash flow of 54.0 cents per security included 5.9 cents per security relating to capital releases from Lane Cove Tunnel, 2.7 cents per security from North Western Roads Group, 1.9 cents per security from Hills M2 and 1.2 cents per security from Transurban Queensland. Excluding these capital releases, the FY20 free cash flow was 42.3 cents per security*

5 *The FY21 free cash flow of 46.7 cents per security included 10.1 cents per security relating to a capital release from WestConnex. Excluding this capital release, the FY21 free cash flow was 36.6 cents per security*

Further details of our Group performance are provided in the Business Performance section on pages 20 to 65 of Transurban's 2021 Corporate Report.

Executive KMP remuneration outcomes

STI outcomes

STI awards are determined with reference to an assessment of performance against individual KPIs (50%) and Group performance measures (50%). When the Board and the Remuneration, People and Culture Committee consider the performance against each element, several factors are considered that may result in the exercise of Board discretion for the benefit or detriment of the executives. In assessing whether to exercise discretion for any of these factors, the Board will have regard for the interests of security holders. For example:

- prevailing external business and economic factors beyond the control of the business and which may impact performance
- unforeseen factors that may not have been known at the beginning of the performance period, but which are relevant to performance over the performance period
- whether budgetary assumptions that were made when setting performance targets remain correct and whether conditions are potentially better or worse when compared with those assumptions
- the degree of difficulty and complexity associated with achieving the targets, as related to both the internal and external environment.

Target performance, which is defined by a combination of individual and Group KPIs, provides the potential to achieve 100% of STI opportunity. KMP can achieve up to 150% of the target STI opportunity based on significant outperformance to agreed targets and measures and alignment to Group values.

Transurban's strategic priorities are cascaded, via the CEO's KPIs to other executives in combination with other functional measures. The Board assessed Group performance and the CEO's KPIs as follows (KPIs that are commercially sensitive have been excluded).

FY21 CEO Individual KPI outcomes (contributes 50% to total STI outcome)

Priority/Area/Measure	Performance
Strategy • Industry leader in Road Transport • Progression of key strategic initiatives	• Demonstrated progress against key strategic growth plans (detail not provided due to commercial in confidence) • Successful sale of 50% of Transurban Chesapeake, introducing strategically aligned partners with exclusive development rights on future growth and enhancement opportunities in the Commonwealth of Virginia, State of Maryland and Washington D.C. • Tracking ahead of targets on the Community Trust benchmark • Recognised as industry innovators at the National Intelligent Transport Systems Awards
Customer • Continuous improvement in customer offering and experience • Implementation of key customer initiatives	• Continued to evolve customer support during the COVID-19 pandemic resulting in positive customer feedback, improved community sentiment and positive media coverage • Customer satisfaction levels tracking ahead of targets • Expanded North American app to California, North Carolina, Georgia and Florida
People and leadership • Enterprise leadership • Workforce capability • Culture • Diversity and gender pay equity	• New Executive roles appointed creating an executive team fit for the next phase of business growth and maturity • Delivered a diverse range of initiatives and programs to support workforce resilience and adaptive leadership • Employee engagement increased during a difficult year with strong pride and gratitude sentiments • Maintained gender pay gap of less than 1% and achieved improvements in gender representation metrics
Finance • Leverage revenue opportunities • Disciplined cost management	• Newly opened assets outperformed traffic and revenue expectations • Effective cost management across the Group
Operations • In-flight road projects • Tolling capability • Resolve West Gate Tunnel commercial issues and progress project	• West Gate Tunnel project: environmental and planning approvals progressed. However, the continuing discussions to resolve broader commercial issues remain unresolved • Remaining in-flight projects progressing satisfactorily across all markets • Improved functionality of road assets, including tolling systems and customer experience in line with project plans • Improved road safety risk metrics
Development • Deliver Capital Works program • Pursue development opportunities across all markets	• Successfully opened road projects M8/M5 East and NorthConnex • Selected as preferred developer for Phase 1 of the Maryland Express Lanes Project • The development bid for the North American Elizabeth River Crossing was ultimately unsuccessful, reflecting a disciplined approach to capital allocation • Development pipelines continue to be identified and explored across all markets

Acknowledging the challenging conditions facing both the Australian and North American markets, the CEO has continued to progress the key strategic priorities approved by the Board for FY21. The Group has performed well during the period, demonstrating disciplined investment as well as effective cost control. This is in addition to providing practical support to both customers, with numerous initiatives for those experiencing financial hardship as well as additional support for small business customers, and the workforce, with a focus on workforce retention, flexible work arrangements and wellbeing support.

The impact of community lockdowns due to the COVID-19 pandemic has resulted in reduced traffic volumes and revenue in Victoria and North America. Positive impacts on business performance have included the completion of several key projects in New South Wales and some assets performing better than expected in Queensland and New South Wales.

There have been ongoing challenges with the West Gate Tunnel Project.

Good progress has also been made from a risk management and balance sheet perspective, priming the business for future growth and to withstand ongoing economic uncertainty. This includes the establishment of a new, strengthened executive team and completion of the notable Transurban Chesapeake transaction.

The Board has considered all of these factors in assessing the CEO's performance and, in consideration of the Group performance outcome of 133.6%, has determined an individual outcome of 100% to be appropriate such that the CEO's total STI outcome is 117%.

FY21 Group measures outcomes (contributes 50% to total STI outcome)

Measure	Target	Performance	Outcome (%)	STI Outcome (%)	Commentary
Proportional EBITDA (20%)	$1,853m	$1,886m	129.9	52.0	Excluding significant items, and specific major development and legal project spend
Proportional Net Costs (20%)	$585m	$483m	150.0	60.0	
HSE (10%) (refer below for detail)	Refer to the table below		108.2	21.6	
Overall performance/ Group outcome				**133.6**	

HSE in detail	Target	Score	Outcome (%)	STI Outcome (%)	Commentary
HSE leadership (6%)	3.50	3.19	84.5	50.7	Leader and employee accountability, participation and improvements against HSE system plans and targets
Number of Recordable Injuries—employees (1%)[1]	3	1	133.3	13.3	Number of recordable injuries (fatalities, lost time and medical treatment injuries)
Recordable Injury Frequency Rate (RIFR)—Contractors (1%)[1]	4.20	3.90	150.0	15.0	RIFR: recordable injuries (fatalities, lost time and medical treatment injuries) per million work hours.
Road Injury Crash Index (RICI) (1%)	4.50	4.29	141.8	14.2	RICI: serious road injury (requiring medical treatment or where emergency medical care is required, other than first aid) crashes per 100 million vehicle kilometres travelled
Road Safety Action Plans (1%)	Action plans in place and 94% of current year actions completed		150.0	15.0	Road Safety Plan actions implemented and actions tracking to target
Total HSE				**108.2**	

1 In the event of an employee or contractor fatality, the STI outcome for the corresponding Recordable Injury metric will be zero for all Executive KMP and STI eligible employees

The STI performance outcomes and awards for the CEO and Executive KMP are detailed in the following table:

	STI Outcome[6] (%)			
	Individual KPIs	**Total[4]**	**STI awarded[5] ($)**	**STI forfeited (%)**
Current Executive KMP				
S Charlton	100	117	2,686,400	–
H Byrne	90	105	510,620	–
M Huey[2]	100	117	363,726	–
Former Executive KMP				
A Watson[3]	–	–	–	–

2 Michele Huey commenced as a KMP on 9 November 2020 and the period of reporting is from that date

3 Adam Watson resigned and departed Transurban on 13 November 2020. He ceased being a KMP on 9 November 2020. He was not awarded a STI for FY21

4 The total STI performance outcome is calculated: [Individual STI outcome % + (Individual STI outcome % x Group outcome %)] ÷ 2. The Group's outcome is 133.6%

5 50% is paid in cash and 50% is awarded in securities that are subject to a two-year restriction period following the end of the performance year. Securities will be granted in October 2021

6 Percentages have been rounded for presentational purposes

LTI outcomes

Value of FY18 LTI plan performance awards vested and lapsed in FY21

The FY18 LTI plan performance awards, which were granted on 21 August 2017 and 23 October 2017 for the CEO and covered the performance period from 1 July 2017 to 30 June 2020, vested on 26 August 2020. The overall vesting outcome of the performance tests was as follows:

Test type	Result of test	% of units vest
TSR	Transurban ranked 8th highest out of 32 companies (77.4 percentile)	100.0%
Free Cash Flow	1.2% cumulative average annual growth rate in FCF per security over the performance period. Target range was 8% to 10% FCF growth per security	0.0%
Overall vesting		**50.0%**

Free Cash Flow measure

The target range for the FCF measure in the LTI plans takes into account forecast financial performance over the three years in which the award is measured. This three-year forecast reflects near-term FCF growth generated by the business together with planned activities that deliver value over the longer term.

The Free Cash growth per security target over the performance period of this FY18 LTI plan (1 July 2017 to 30 June 2020) achieved an outcome of 0%. This was due to the significant impact of COVID-19 pandemic restrictions during the last four months of the three year performance period.

Although the FCF component did not vest, management achievements during the performance period included:

- **Operational efficiency**—improvement in underlying proportional Group EBITDA year on year (FY18 and FY19). Reduced traffic and toll revenue across all regions due to the COVID-19 pandemic significantly impacting FY20 proportional Group EBITDA.
- **Customer experience**—improvements delivered from initiatives including:
  - improved fee arrangements for customers
  - investment in customer technology platforms
  - the launch of a new national retail brand and improved customer hardship program including the toll credit program for Australian frontline workers and customers impacted by COVID-19, with additional programs in place to support North American customers experiencing hardship.
- **Portfolio development**—disciplined investment including:
  - completion of a number of projects including the M4 Tunnels in Sydney, the CityLink Tulla Widening project in Melbourne, Logan Enhancement, Gateway Upgrade North and Inner City Bypass projects in Brisbane and the 395 Express Lanes in the Greater Washington Area
  - new projects including the Fredericksburg Extension in the Greater Washington Area and the West Gate Tunnel Project in Melbourne.
- **Funding**—balanced mix of debt and equity to support the development pipeline while maintaining strong investment grade credit metrics including:
  - $28.9 billion in debt funding raised or refinanced reducing the average tenor of debt by 1.1 years and reducing the average cost of debt by 45 basis points
  - $7.5 billion of equity raised through two entitlement offers, an institutional placement and a security purchase plan to respectively fund the construction of the West Gate Tunnel Project, the acquisition of WestConnex and the remaining M5 West equity interest, with securities issued at an average discount of 7.2% to the Theoretical Ex Rights Price.

Value of FY19 LTI plan performance awards to vest and lapse in FY22

The FY19 LTI plan (1 July 2018 to 30 June 2021) is scheduled to vest in August 2021. Reduced traffic and toll revenue across all regions due to the COVID-19 pandemic have significantly impacted the FCF component of this plan, with calculations indicating that 42.8% of awards will vest for eligible participants derived entirely from relative TSR. The Board will conduct a detailed review of all contributing factors when finalising this outcome, which will be included in next year's Remuneration Report.

LTI grants

Performance awards granted in FY21

The Board considered the setting of performance targets for the FY21 LTI plan (1 July 2020 to 30 June 2023) in the context of the ongoing impacts of the COVID-19 pandemic. There were significant challenges associated with predicting traffic and toll revenues, and therefore accurately forecasting FCF for the three year period.

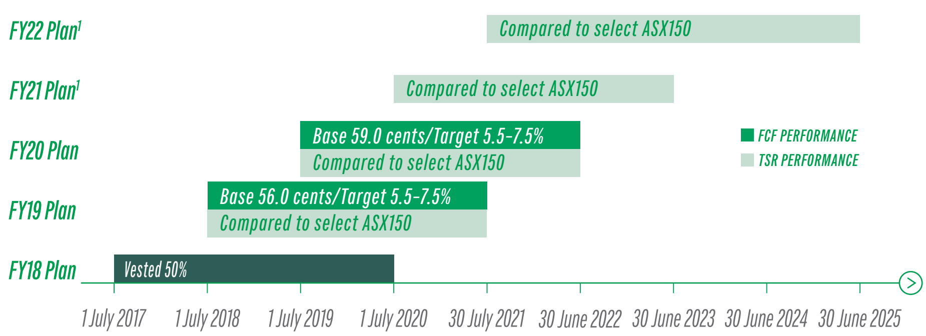
As a result, the Board decided that FCF was not a suitable measure for the FY21 LTI Plan. After considering various alternatives, incorporating independent expert advice as well as feedback from various stakeholders, a decision was made by the Board to retain the relative TSR measure with the existing comparator group as a single performance measure.

Looking ahead—performance awards to be granted in FY22

The Board approved to extend the performance period from three years to four years for LTI plans commencing 1 July 2021. The Board has also approved that the FY22 LTI plan (performance period 1 July 2021 to 30 June 2025) will consist of two tranches to enable this transition. Tranche 1 (50% of awards granted) will have a three-year performance period (1 July 2021 to 30 June 2024) and Tranche 2 (50% of awards granted) will have a four-year performance period (1 July 2021 to 30 June 2025).

Given ongoing economic uncertainty relating to COVID-19, the Board has decided to continue to test performance relative to TSR hurdles only, with no FCF hurdles applying to the FY22 LTI Plan. This will be revisited for the FY23 LTI Plan.

Figure 2: Current on-foot LTI plans and associated performance parameters

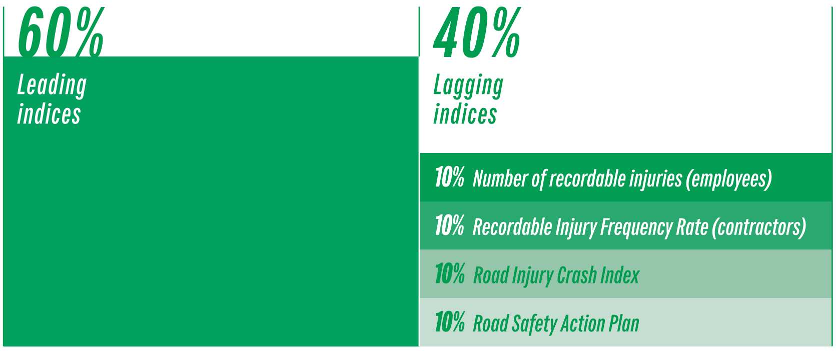


1 *Single performance measure of Relative TSR for the FY21 and FY22 plans*

How variable remuneration is structured

Short Term Incentive (STI)—how does it work?

Description	Eligible permanent Group employees, including the CEO and other Executive KMP, participate in the annual STI plan, which puts a proportion of remuneration 'at risk' subject to meeting specific pre-determined Group and individual performance measures linked to Group objectives.
Performance period	The performance period is the financial year preceding the payment date.
Opportunity	For 'at-target' performance, the CEO has the opportunity to receive 100% of TEC and all other Executive KMP have the opportunity to receive 67% of TEC. The minimum STI outcome is 0% (if targets are not met) and the maximum is capped at 150% of the STI opportunity, which is only awarded for exceptional performance.
Payment and deferral	STI awards for the CEO and other Executive KMP are delivered 50% in cash and 50% is deferred into Transurban stapled securities for two years following the performance year. The deferred securities are subject to service conditions and participate in dividends and/or distributions paid during the deferral period. The number of deferred securities allocated is determined by dividing the amount to be deferred by a 10 day Volume Weighted Average Price (VWAP) of Transurban securities over the 10 business days immediately preceding the STI deferred plan offer.
Annual pool	The Board determines the total STI pool to be distributed. The total pool will not exceed 125% of the aggregate STI target opportunity for all participants. The pool is awarded on individual performance and Group performance in accordance with the following formula: (Individual STI outcome % + [Individual STI outcome % x Group outcome %]) ÷ 2. This approach is designed such that higher performing employees receive a greater portion of the Group STI outcome than those who do not perform as well.
Performance measures	Individual measures (KPIs) (50%): are unique to the individual's area of accountability. Individuals have a clear line of sight to KPIs and are able to directly affect outcomes through their own actions. Group measures (50%) comprise the following three components: • Proportional EBITDA[1] (20%): is one of the primary measures the Board uses to assess the operating performance of the Group. It reflects the contribution from individual assets to the Group's operating performance and focuses on elements of the result that management can influence to drive improvements in short term earnings. This measure provides a better reflection of the performance of the Group's assets than statutory EBITDA. • Proportional Net Costs[2] (20%): reflects management's ability to influence the expenditure of the business. Strong cost management throughout the business drives an increase in proportional EBITDA and free cash flow and ultimately security holder value. • Health Safety and Environment (HSE) (10%): measures focus on improving the Group's HSE culture and reducing workplace injuries for employees and contractors, as well as customer safety. The HSE measure is a combination of a lead indicator and four lag indicators. The following diagram illustrates the performance measures within the lag indicators. The Leading (leadership) KPI requires the submission of HSE reports and includes proactive HSE observations, HSE meetings and actions to reduce HSE risks. Employees are assessed against a five-scale rating according to their KPI. This result is then aggregated across the Group and averaged to provide the Group score. This is then benchmarked against the annual target. The Lagging KPIs focus on recordable incidents, planning and tracking, including injury rates, crash rates and road safety action planning.



1 *Proportional EBITDA is the aggregation of EBITDA from each asset multiplied by the Group's percentage ownership, as well as any contribution from Group functions. Proportional EBITDA figures used to assess performance are included in note B4 of the Transurban audited financial statements. Refer to the Transurban 2021 Corporate Report*

2 *Proportional Net Costs is the aggregation of total costs less fee and other revenues from each asset multiplied by the Group's percentage ownership, as well as any contribution from Group functions*

Targets	**Financials (proportional EBITDA and proportional Net Costs)** The Board utilises the annual budget as the primary input to determine appropriate stretch financial targets. When approving the budget, the Board reviews the core principles and assumptions underpinning the budget. Specifically for proportional EBITDA, the budget incorporates base business growth derived from network-wide traffic performance, price growth and impacts of inflation and adjusts for events such as construction and project completion and the impact of acquisitions. Directly controllable initiatives including road safety, lane availability, operational efficiencies and the impact of development activity are also incorporated. Once the budget has been finalised, the Board determines the STI targets. In order to ensure that sufficient stretch is incorporated, consideration is given to the quantifiable risks and opportunities that can influence the Group's financial performance. In some instances, the Board may deem it appropriate to exclude significant items. The targets use a constant currency for operations within North America.
	HSE The Board reviews HSE targets each year with a view to continuously improving the HSE culture and performance of the Group.
	Individual KPIs Individual targets as set out in KPIs include consideration as to role-related accountabilities and responsibilities in the context of business strategic priorities. Executive KPIs consist of similar categories to those of the CEO (as disclosed on page 11) of this report) and reflect the individual's role and areas of responsibility.
Vesting	The Board assesses performance against Group measures and the results of key elements are independently validated. The Board confirms final outcomes for individual and Group performance and has discretion to adjust the performance conditions and outcomes. These methods for assessing performance are used because they provide the Board with discretion as to assessment of conditions and outcomes, with the use of an independent overlay where considered appropriate.
Cessation of employment	If employment ceases before performance is assessed, generally there is no entitlement to receive any STI award. If employment ceases due to resignation before the end of the two-year restriction period, any unvested deferred securities will lapse, unless the plan rules provide otherwise or the Board otherwise resolves.
Clawback	Grants prior to FY21: Fraudulent or dishonest behaviour will result in the forfeiture or clawback of any unvested awards. Further, at the discretion of the Board, awards are subject to forfeiture or clawback where there is a financial misstatement circumstance or the allocation of awards was made in error, on the basis of the misrepresentation or an omission, or on the basis of facts or circumstances that were later proven to be untrue or inaccurate (applicable to both STI and LTI plans). FY21 and future grants: In December 2019 Transurban adopted new Equity Incentive Plan Rules. Under the new Equity Plan Rules, in addition to the above, the Board has discretion to clawback vested securities or repay cash proceeds from the sale of vested securities. Circumstances for clawback have also been expanded to include: breach of duties or obligation to the Group, acts which have a negative impact on Transurban's reputation, vesting is not justified or supportable and the possibility of an employee who departed as a "good leaver" but then behaves inappropriately.

Long Term Incentive (LTI)—how does it work?

Description	Participation in the LTI plan is offered to the CEO and other Executive KMP and a very limited number of other employees nominated by the CEO and approved by the Board.
Instrument	Grants are made in the form of performance awards at no cost to the recipient. Each performance award is an entitlement to receive a Transurban stapled security, or at the Board's discretion, an equivalent cash payment, on terms and conditions determined by the Board, subject to the achievement of vesting conditions. Performance awards do not carry dividend, distribution or voting entitlements prior to vesting.
Performance period	The three financial years commencing on 1 July in the year the grant is made e.g. the FY21 grant has a performance period commencing 1 July 2020 and ending 30 June 2023. The FY22 plan will transition to a four year performance period.
Opportunity	The CEO's opportunity is 147% of TEC and the opportunity for all other Executive KMP is 80% of TEC. The minimum vesting outcome an individual can receive is 0% of the award (if the performance measures are not achieved) and the maximum vesting outcome an individual can receive is capped at 100% of the award (if performance measures are achieved).
Performance measures	Two performance measures are ordinarily used to determine the number of awards that will vest at the end of the performance period; relative Total Shareholder Return (TSR) against a bespoke comparator group and Free Cash Flow (FCF) (each with an equal 50% weighting). The FY21 Plan (with the performance period 1 July 2020 to 30 June 2023) has Relative TSR as a single performance measure. In July 2020, the Board decided that FCF was not a suitable measure for the FY21 plan. The COVID-19 pandemic created challenges associated with predicting traffic and toll revenues and therefore the ability to accurately forecast FCF for the FY21 plan's three year performance period. The Board decided to remove the FCF measure from this plan and retain the relative TSR measure with the existing comparator group as a single performance measure for the FY21 plan.
Targets	Relative TSR is measured against a bespoke comparator group comprising companies in the transport, utilities, real estate, construction and infrastructure Global Industry Classification standards sectors of the ASX150. The companies in this group for grants made during FY21 were: *Abacus Property Group, AGL Energy Limited, APA Group, Atlas Arteria, Aurizon Holdings Limited, AusNet Services Limited, BWP Trust, Charter Hall Group, Charter Hall Long, Charter Hall Retail, Chorus Limited, Cromwell Property Group, Dexus Property Group, Goodman Group, GPT Group, Growthpoint Properties Australia, Lendlease Group, Mirvac Group, National Storage, Qantas Airways Limited, Qube Holdings Limited, Scentre Group, Shopping Centres Australasia Property Group, Spark Infrastructure Group, Spark New Zealand Limited Stockland Corporation Limited, Sydney Airport, Telstra Corporation Limited, TPG Telecom Limited, Transurban Group, Vicinity Centres, Waypoint, Vocus Group Limited.* Changes to the comparator group in FY21 are as follows: Moved out of ASX150 and excluded: Mondadelphous Group Limited Moved into ASX150 and included: Charter Hall Long, National Storage
	FCF per security targets are set by the Board utilising the annual budget and three-year forecast as the primary inputs (consistent with the approach taken for STI measures of proportional EBITDA and proportional Net Costs). Once the budget and forecast has been finalised, the Board determines the FCF targets by analysing the cash flow outcomes, ensuring sufficient stretch is incorporated. The actual FCF outcomes are reviewed in detail against targets to consider key reasons for variance and assess whether any adjustments should be made in determining management's performance. The Board may make adjustments where a decision has been made, in the interests of the Transurban Group and its security holders that differs from the original budgeted assumptions. This may include factors such as significant equity raisings to fund growth opportunities or changes to the timing or quantum of anticipated capital releases. Factors that may cause FCF growth to fluctuate from year to year include activities that are intended to generate long-term value for the business but may negatively impact FCF growth in the near term. The Group is currently in a significant development phase with seven major projects to be delivered in Australia and North America (refer to page 65 of the Transurban 2021 Corporate Report for the project pipeline). The FCF calculation is included in note B10 of the Transurban audited financial statements. Refer to the Transurban 2021 Corporate Report.
Why are these performance measures used?	TSR is a relative, external, market-based performance measure against those companies with which the Group competes for capital. It provides a direct link between executive reward and security holder return. TSR measures total return on investment of a security, taking into account both capital appreciation and distributed and/or dividend income that was reinvested on a pre-tax basis. Growth in FCF per security reflects the Group's continued focus on maximising available free cash. The Group seeks to consistently grow its distributions year on year and to align security holder distributions with FCF per security.
Allocation	Face value allocation methodology (discounted for distributions and/or dividends foregone throughout the performance period). For each grant cycle, the allocation calculations are performed on 1 July of the first performance year using a valuation determined by an independent third party.

Vesting	Following the end of the performance period, the performance measures are tested and the Board assesses the LTI outcome. **TSR component** The Group uses an independent report that sets out the Group's TSR growth and that of each company in the bespoke comparator group. A VWAP of securities for the 20 trading days up to and including the testing date is used to calculate TSR. The level of TSR growth achieved by the Group is given a percentile ranking in relation to the Group's performance compared to the performance of other companies in the comparator group (the highest-ranking company is ranked at the 100th percentile). The TSR performance is tested at the end of the three-year performance period, and this ranking determines the extent to which performance awards, subject to this component vest. Following testing, any awards that do not vest lapse, and any awards that vest are automatically exercised into Transurban stapled securities or settled in cash at the discretion of the Board. No price is payable on exercise. **FY21 TSR vesting schedule** The TSR component of performance awards granted during FY21, will vest on a straight line basis in accordance with the following table:

The Group's relative TSR ranking in the comparator group	% of performance awards that vest
At or below the 50th percentile	Zero
Above the 50th percentile but below the 75th percentile	Straight line vesting between 50 and 100
At or above the 75th percentile	100

The method of assessing the performance measure set out above is considered to be the most appropriate for the type of performance measure used.

Cessation of employment	If employment ceases due to resignation before the performance measures are tested, generally there is no entitlement to unvested performance awards and any unvested awards will lapse, unless the plan rules provide otherwise or the Board otherwise resolves.
Clawback	Same treatment as per STI

Minimum security holding

The Transurban Board has endorsed minimum security holding guidelines for Non-executive Directors, the CEO and Executive KMP. The guidelines recommend that all KMP build and maintain a minimum security holding of Transurban stapled securities equal in value to their fixed remuneration (excluding superannuation). The minimum stapled security holding can be accumulated over a five-year period.

As at the date of this report, all KMP have either achieved and maintained their minimum security holding or, for those new to the Group, are on track to meet the five-year accumulation period.

Service Agreements

The remuneration and other terms of employment for the CEO and other Executive KMP are formalised in service agreements that have no specified term. Under these agreements, the CEO and other Executive KMP are eligible to participate in STI and LTI plans. Some other key aspects of the agreements in place for FY21 are outlined below:

	Period of notice to terminate by the Executive KMP	Period of notice to terminate by the Group[1]
CEO	6 months	12 months
Other Executive KMP	3 months	6 months
Other Executive KMP—commencing post 6 October 2020	6 months	6 months

1 *Payment in lieu of the notice period may be provided (based on the executive's fixed remuneration). The Group may also terminate at any time without notice for serious misconduct*

Statutory tables

Dealing in securities

In accordance with the Transurban Group's Dealing in Securities Policy, employees who have equity awards under a Group equity plan may not hedge against those equity awards. In addition, Executive KMP may not hedge against entitlements that have vested but remain subject to a holding lock. Directors and employees are also prohibited from entering into margin lending arrangements using Transurban stapled securities as security.

Securities held by Executive KMP as at 30 June 2021

	Balance at start of year	Changes during year	Balance at end of year[4]
Current Executive KMP			
S Charlton[1]	1,479,012	(1,129,012)	350,000
H Byrne	8,022	26,780	34,802
M Huey[2]	189,431	3,901	193,332
Former Executive KMP			
A Watson[3]	129,684	–	N/A

1 As disclosed in Appendix 3Y documents released to the market on 13 November 2020 and 1 December 2020, the disposal of securities was part of a divorce settlement, under which Mr Charlton retained an interest in 350,000 Transurban securities

2 Michele Huey become a member of KMP on 9 November 2020. The table above includes transactions prior to Michele becoming a KMP

3 Ceased being a KMP during FY21

4 No Transurban securities were held nominally or held by closely related parties of Executive KMP during FY21

LTI performance awards granted in FY21

Eligible Executive KMP received LTI performance awards with a grant date of 22 October 2020. All performance awards granted in FY21 may vest subject to a performance period from 1 July 2020 through to 30 June 2023.

The value of the grant has been estimated based on a fair value approach as at the grant date. The fair value considers the probability that the Executive KMP may not derive value from the LTI award, along with other factors, including difficulty of achieving performance hurdles and anticipated security price volatility.

The maximum LTI opportunity for each Executive KMP is the face value of the award (i.e. the value the Executive KMP would receive if all of their performance awards vested, based on Transurban's security price at the time the award was granted).

The minimum total value of the grant, if the applicable performance measures are not met, is zero.

The relevant values of the grants are as follows:

	Value of awards at allocation date	Value of awards at grant date		
Grant date	Face value[5]	Relative TSR[6]	FCF per security[7]	Security price at grant date
22 October 2020	$13.28	$6.61	NA	$14.00

5 Security price as at 1 July 2020 (allocation date) discounted for distributions and dividends forgone throughout the three-year performance period

6 Fair value in accordance with AASB 2—share-based payments treatment of market conditions

7 The FY21 LTI grant has the one TSR performance measure

The following table shows the number of LTI awards granted to Executive KMP during FY21.

	Number of performance awards granted	Potential value of grant yet to vest at target ($)	Maximum (face value) of potential value of grant to vest ($)
Current Executive KMP			
S Charlton[8]	254,594	1,682,866	3,564,316
H Byrne	43,675	288,692	611,450
M Huey[9]	43,675	288,692	611,450
Former Executive KMP			
A Watson[10]	–	–	–

8 Scott Charlton was granted 254,594 performance awards as part of his 2021 remuneration package as approved at the 2020 Annual General Meeting, under listing Rule 10.14. This grant relates to the LTI performance award for the three year period ending 20 June 2023

9 Michele Huey become a member of KMP on 9 November 2020. The table above includes transactions prior to Michele becoming a KMP

10 Adam Watson resigned and departed Transurban on 13 November 2020. He ceased being a KMP on 9 November 2020. Adam was not granted any LTI awards in FY21

Summary of Executive KMP allocated, vested or lapsed equity[1]

	Allocation date	Grant date	Vesting date	Balance at start of year	Granted during year	Vested in FY21[4]	% of total Vested	Lapsed/ forfeited in FY21	Balance at end of year[5]	Fair value of equity ($)[6,7]
Current Executive KMP										
S Charlton										
Performance awards	1 Jul 2017	23 Oct 2017	26 Aug 2020	309,697	–	(154,849)	50	(154,848)	–	2,476,785
Performance awards	1 Jul 2018	19 Oct 2018	Aug 2021	316,870	–	–	–	–	316,870	2,170,560
Performance awards	1 Jul 2019	17 Oct 2019	Aug 2022	257,502	–	–	–	–	257,502	2,508,069
Performance awards	1 Jul 2020	22 Oct 2020	Aug 2023	–	254,594	–	–	–	254,594	1,682,866
Total performance awards				**884,069**	**254,594**	**(154,849)**	**50**	**(154,848)**	**828,966**	
Deferred securities	30 Aug 2018	7 Aug 2018	1 Jul 2020	126,861	–	(126,861)	100	–	–	1,486,370
Deferred securities	11 Oct 2019	2 Sep 2019	Aug 2021	79,006	–	–	–	–	79,006	1,180,475
Deferred securities	15 Oct 2020	2 Sep 2020	Aug 2022	–	42,660	–	–	–	42,660	575,000
Total deferred securities				**205,867**	**42,660**	**(126,861)**	**100**	**–**	**121,666**	
H Byrne										
Performance awards	1 Jul 2017	21 Aug 2017	26 Aug 2020	36,727	–	(18,364)	50	(18,363)	–	272,866
Performance awards	1 Jul 2018	22 Aug 2018	Aug 2021	42,362	–	–	–	–	42,362	314,961
Performance awards	1 Jul 2019	17 Oct 2019	Aug 2022	37,179	–	–	–	–	37,179	362,123
Performance awards	1 July 2020	22 Oct 2020	Aug 2023	–	43,675	–	–	–	43,675	288,692
Total performance awards				**116,268**	**43,675**	**(18,364)**	**50**	**(18,363)**	**123,216**	
Deferred securities	30 Aug 2018	7 Aug 2018	1 Jul 2020	14,416	–	(14,416)	100	–	–	168,895
Deferred securities	11 Oct 2019	2 Sep 2019	Aug 2021	14,954	–	–	–	–	14,954	223,430
Deferred securities	15 Oct 2020	2 Sep 2020	Aug 2022	–	10,967	–	–	–	10,967	147,810
Total deferred securities				**29,370**	**10,967**	**(14,416)**	**100**	**–**	**25,921**	
M Huey[2]										
Performance awards	1 Jul 2017	21 Aug 2017	26 Aug 2020	45,908	–	(22,954)	50	(22,954)	–	341,075
Performance awards	1 Jul 2018	22 Aug 2018	Aug 2021	48,735	–	–	–	–	48,735	362,345
Performance awards	1 Jul 2019	17 Oct 2019	Aug 2022	42,773	–	–	–	–	42,773	416,609
Performance awards	1 Jul 2020	22 Oct 2020	Aug 2023	–	43,675	–	–	–	43,675	288,692
Total performance awards				**137,416**	**43,675**	**(22,954)**	**50**	**(22,954)**	**135,183**	
Deferred securities	30 Aug 2018	7 Aug 2018	1 Jul 2020	3,901	–	(3,901)	100	–	–	45,695
Deferred securities	11 Oct 2019	2 Sep 2019	Aug 2021	9,476	–	–	–	–	9,476	141,580
Deferred securities	15 Oct 2020	2 Sep 2020	Aug 2022	–	12,570	–	–	–	12,570	169,425
Total deferred securities				**13,377**	**12,570**	**(3,901)**	**100**	**–**	**22,046**	
Former Executive KMP										
A Watson[3]										
Performance awards	1 Jul 2017	21 Aug 2017	26 Aug 2020	65,036	–	(32,518)	50	(32,518)	–	483,187
Performance awards	1 Jul 2018	22 Aug 2018	Aug 2021	67,479	–	–	–	(67,479)	–	501,706
Performance awards	1 Jul 2019	17 Oct 2019	Aug 2022	54,837	–	–	–	(54,837)	–	534,112
Total performance awards				**187,352**	**–**	**(32,518)**	**50**	**(154,834)**	**–**	
Deferred securities	30 Aug 2018	7 Aug 2018	1 Jul 2020	25,527	–	(25,527)	100	–	–	299,085
Deferred securities	11 Oct 2019	2 Sep 2019	Aug 2021	23,821	–	–	–	–	23,821	355,910
Deferred securities	15 Oct 2020	2 Sep 2020	Aug 2022	–	15,220	–	–	–	15,220	205,145
Total deferred securities				**49,348**	**15,220**	**(25,527)**	**100**	**–**	**39,021**	

1 Additional information regarding the prior year incentive awards that are on foot, can be found in the Transurban Remuneration Report of the relevant year in which the grant was made

2 Michele Huey become a member of KMP on 9 November 2020. The table above includes transactions prior to Michele becoming a KMP

3 Adam Watson resigned and departed Transurban on 13 November 2020. He ceased being a KMP on 9 November 2020. In accordance with the plan rules, Adam forfeited his performance awards upon his departure. The Transurban Board exercised its discretion and approved that Adam retain his deferred securities including his FY20 STI deferred award. His deferred securities will continue on foot and vest at the end of the original two-year deferred period

4 Performance awards granted in FY18 vested during FY21 at the end of the three year performance period in accordance with performance outcomes (market value at vesting was $13.48). Performance awards that vest are automatically exercised. Securities granted as FY18 deferred STI awards vested during FY21 at the end of the two-year restriction period. Vesting date and exercise date are the same

5 No closely related parties of Executive KMP held any performance awards or deferred securities during FY21

6 Fair value at grant date for performance awards. Deferred securities represent the value of the STI deferred component

7 In accordance with the requirements of AASB 2 Share-based Payment, the fair value of performance awards as at their date of grant has been independently determined. The fair value of the performance awards with a TSR performance measure has been valued applying a Monte Carlo simulation (using a Black-Scholes framework) to model Transurban's security price and the TSR performance against the comparator group's TSR performance. The fair value of performance awards with a FCF performance measure (grants made prior to October 2020) has been determined by reference to Transurban's security price at the grant date discounted for dividends and distributions forgone throughout the performance period. The amount included is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should these equity instruments vest

Executive KMP remuneration

	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based benefits[7]	
	Cash salary and fees	Cash STI[4]	Non-monetary benefits[5]	Deferred STI[6]	Super-annuation	Long service leave	Equity awards	Total
Current Executive KMP								
S Charlton								
2021	2,278,306	1,343,200	6,466	1,032,892	21,694	44,125	787,301	5,513,984
2020	2,278,997	575,000	6,467	1,080,615	21,003	108,779	480,721	4,551,582
H Byrne[1]								
2021	703,306	255,310	4,103	208,850	21,694	13,476	126,347	1,333,086
2020	242,381	50,890	1,334	62,475	7,231	32,128	21,773	418,212
M Huey[2]								
2021	450,887	181,863	2,521	127,083	13,908	17,026	86,063	879,351
Former Executive KMP								
A Watson[3]								
2021	367,863	–	1,034	247,888	8,773	(52,019)	(296,841)	276,698
2020	878,997	205,145	2,961	286,713	21,003	27,715	85,561	1,508,095
Total								
2021	3,800,362	1,780,373	14,124	1,616,713	66,069	22,608	702,870	8,003,119
2020	3,400,375	831,035	10,762	1,429,803	49,237	168,622	588,055	6,477,889

1 *FY20: Henry Byrne commenced as a KMP on 25 February 2020 and the period of reporting is from that date*

2 *Michele Huey commenced as a KMP on 9 November 2020 and the period of reporting is from that date*

3 *Adam Watson resigned and departed Transurban on 13 November 2020. He ceased being a KMP on 9 November 2020. His cash salary amount included annual leave of $17,555 and a refund of $33,833 for unused purchased leave which were paid out on termination*

4 *The amount represents the cash STI payment to the Executive KMP for FY21, which will be paid in September 2021. FY20: cash component of FY20 STI paid in September 2020*

5 *Non-monetary benefits include Group employee insurance. Amounts disclosed for 2020 have been restated and differ to those in the 2020 Remuneration Report*

6 *A component of STI award is deferred into Transurban stapled securities. In accordance with accounting standards, the deferred component will be recognised over the three-year service period. The Transurban Board exercised its discretion and approved that Adam Watson retain his unvested deferred securities. The value of the Deferred STI benefit for Adam is the amount that would have been recognised for services received from Adam over the remainder of the deferred periods. These awards will continue on foot and vest at the end of the original two-year deferred period*

7 *In accordance with the requirements of the accounting standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year (i.e. performance awards under the LTI plan). The fair value of the awards is determined as at the grant date and is progressively allocated over the performance period. The amount included, as remuneration may be different to the benefit (if any) that the KMP may ultimately realise should the awards vest. The fair value of performance awards with a TSR performance measure has been determined by applying a Monte Carlo simulation (using a Black-Scholes framework) to model Transurban's security price and the TSR performance against the comparator group performance. The fair value of performance awards with a FCF performance measure has been determined by reference to Transurban's security price at the grant date discounted for dividends and distributions forgone throughout the performance period. As the FCF performance measure is a non-market performance condition, amounts recognised are adjusted based on the best available estimate of the number of equity instruments expected to vest*

Auditor's Independence Declaration

As lead auditor for the audit of Transurban Finance Company Pty Ltd for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Marcus Laithwaite
Partner
PricewaterhouseCoopers

Melbourne
16 September 2021

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Financial statements

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Section A: Financial statements

Transurban Finance Company Pty Ltd
Statement of comprehensive income for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Corporate and other expenses		(19)	–
Total expenses		**(19)**	–
Finance income	B8	486,382	443,597
Finance costs	B8	(477,384)	(457,602)
Net finance income/(costs)		**8,998**	**(14,005)**
Profit/(loss) before income tax		8,979	(14,005)
Income tax (expense)/benefit	B5	(2,694)	4,202
Profit/(loss) for the year		**6,285**	**(9,803)**
Profit/(loss) for the year is attributable to:			
Owners of Transurban Finance Company Pty Ltd		6,285	(9,803)
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss in the future			
Changes in the fair value of cash flow hedges, net of tax		64,118	(45,606)
Changes in the fair value of the costs of hedging, net of tax		4,822	–
Other comprehensive income/(loss) for the year, net of tax		**68,940**	**(45,606)**
Total comprehensive income/(loss) for the year		**75,225**	**(55,409)**
Total comprehensive income/(loss) for the year is attributable to:			
Owners of Transurban Finance Company Pty Ltd		75,225	(55,409)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Transurban Finance Company Pty Ltd
Balance sheet as at 30 June 2021

	Note	2021 $'000	2020 $'000
Assets			
Current assets			
Cash and cash equivalents	B6	5,109	1,027
Trade and other receivables	B6	10	135
Loans to related parties	B15	402,543	1,382,447
Derivative financial instruments	B9	190	70,678
Total current assets		**407,852**	**1,454,287**
Non-current assets			
Loans to related parties	B15	8,907,760	7,929,372
Derivative financial instruments	B9	100,939	197,829
Deferred tax assets	B5	32,412	48,992
Total non-current assets		**9,041,111**	**8,176,193**
Total assets		**9,448,963**	**9,630,480**
Liabilities			
Current liabilities			
Trade and other payables	B6	156,127	178,885
Loans from related parties	B15	40,385	53,748
Borrowings	B10	215,675	1,145,014
Derivative financial instruments	B9	–	93,570
Total current liabilities		**412,187**	**1,471,217**
Non-current liabilities			
Loans from related parties	B15	50,702	47,858
Borrowings	B10	8,782,181	8,138,464
Derivative financial instruments	B9	352,813	197,086
Total non-current liabilities		**9,185,696**	**8,383,408**
Total liabilities		**9,597,883**	**9,854,625**
Net liabilities		**(148,920)**	**(224,145)**
Equity			
Reserves	B12	(157,713)	(226,653)
Retained earnings		8,793	2,508
Total equity		**(148,920)**	**(224,145)**

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

Transurban Finance Company Pty Ltd
Statement of changes in equity for the year ended 30 June 2021

	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2020	**(226,653)**	**2,508**	**(224,145)**
Profit/(loss) for the year	–	6,285	6,285
Other comprehensive income/(loss)	68,940	–	68,940
Total comprehensive income/(loss)	**68,940**	**6,285**	**75,225**
Balance at 30 June 2021	**(157,713)**	**8,793**	**(148,920)**

Transurban Finance Company Pty Ltd
Statement of changes in equity for the year ended 30 June 2020

	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2019	**(181,047)**	**12,311**	**(168,736)**
Profit/(loss) for the year	–	(9,803)	(9,803)
Other comprehensive income/(loss)	(45,606)	–	(45,606)
Total comprehensive income/(loss)	**(45,606)**	**(9,803)**	**(55,409)**
Balance at 30 June 2020	**(226,653)**	**2,508**	**(224,145)**

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

Transurban Finance Company Pty Ltd
Statement of cash flows for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers and related parties (inclusive of GST)		26,431	36,321
Payments to suppliers (inclusive of GST)		(16)	–
Interest received		393,003	349,689
Interest paid		(414,850)	(344,100)
Finance fees paid		(30,933)	(35,598)
Net cash (outflow)/inflow from operating activities	B7	**(26,365)**	**6,312**
Cash flows from financing activities			
Proceeds from borrowings	(a)	1,639,157	2,058,327
Repayment of borrowings	(a)	(1,566,296)	(273,605)
Repayment of loans from related parties	(a)	(2,157,443)	–
Proceeds from loans from related parties	(a)	2,188,728	–
Loans issued to related parties	(a)	(1,639,157)	(2,063,847)
Related party loan repayments received	(a)	1,566,296	273,605
Net cash inflow/(outflow) from financing activities		**31,285**	**(5,520)**
Net increase/(decrease) in cash and cash equivalents		**4,920**	**792**
Cash and cash equivalents at the beginning of the year		1,027	456
Effects of exchange rate changes on cash and cash equivalents		(838)	(221)
Cash and cash equivalents at end of the year	B6	**5,109**	**1,027**

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

Transurban Finance Company Pty Ltd
Statement of cash flows for the year ended 30 June 2021 (continued)

(a) Reconciliation of liabilities arising from financing activities

	Borrowings current $'000	Borrowings non-current $'000	Debt principal related derivatives (included in assets/liabilities)[1] $'000	Total debt related financial instruments $'000	Net related party receivables $'000
Balance at 1 July 2020	**1,145,014**	**8,138,464**	**(917,746)**	**8,365,732**	**(9,210,212)**
Proceeds from borrowings (net of costs)	–	1,641,070	(1,913)	1,639,157	(3,796,600)
Repayment of borrowings	(1,145,014)	(308,757)	(112,525)	(1,566,296)	3,755,024
Capitalised premiums and discounts included in operating cash flows	–	(793)	–	(793)	–
Total cash flows	**(1,145,014)**	**1,331,520**	**(114,438)**	**72,068**	**(41,576)**
Non-cash changes					
Transfer	215,675	(215,675)	–	–	–
Capitalised interest	–	–	–	–	(26,213)
Amortisation of borrowing costs	–	649	–	649	–
Amortisation of discounts	–	2,980	–	2,980	–
Intercompany non-cash settlements	–	–	–	–	11,383
Translation differences	–	(475,757)	381,275	(94,482)	47,402
Total non-cash changes	**215,675**	**(687,803)**	**381,275**	**(90,853)**	**32,572**
Balance at 30 June 2021	**215,675**	**8,782,181**	**(650,909)**	**8,346,947**	**(9,219,216)**

1 Total derivatives balance at 30 June 2021 is a liability of $251,684 thousand. The difference in carrying value to the table above relates to interest rate swap contracts, forward exchange contracts, the interest portion of cross-currency interest rate swap contracts and credit valuation and debit valuation adjustments which are excluded from the balances above

	Borrowings current $'000	Borrowings non-current $'000	Debt principal related derivatives (included in assets/liabilities)[1] $'000	Total debt related financial instruments $'000	Net related party receivables $'000
Balance at 1 July 2019	**226,822**	**7,328,437**	**(992,606)**	**6,562,653**	**(7,385,491)**
Proceeds from borrowings (net of costs)	–	2,058,327	–	2,058,327	(2,063,847)
Repayment of borrowings	(219,354)	(65,843)	11,592	(273,605)	273,605
Capitalised premiums and discounts included in operating cash flows	–	(6,807)	–	(6,807)	–
Total cash flows	**(219,354)**	**1,985,677**	**11,592**	**1,777,915**	**(1,790,242)**
Non-cash changes					
Transfer	1,045,014	(1,045,014)	–	–	–
Capitalised interest	–	–	–	–	(39,762)
Amortisation of borrowing costs	–	667	–	667	–
Amortisation of discounts	–	2,947	–	2,947	–
Intercompany non-cash settlements	–	–	–	–	23,550
Translation differences	92,532	(134,250)	63,268	21,550	(18,267)
Total non-cash changes	**1,137,546**	**(1,175,650)**	**63,268**	**25,164**	**(34,479)**
Balance at 30 June 2020	**1,145,014**	**8,138,464**	**(917,746)**	**8,365,732**	**(9,210,212)**

1 Total derivatives balance at 30 June 2020 is a liability of $22,149 thousand. The difference in carrying value to the table above relates to interest rate swap contracts, forward exchange contracts, the interest portion of cross-currency interest rate swap contracts and credit valuation and debit valuation adjustments which are excluded from the balances above

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

Section B: Notes to the financial statements

Basis of preparation and significant changes

B1 Corporate information

Transurban Finance Company Pty Ltd (the Company) is a Company limited by shares and is incorporated and domiciled in Australia.

The principal activities of the Company are to obtain and manage the external funding requirements of the Transurban Group. Funding is sourced both from domestic and international debt capital markets, as well as through bank term debt facilities. All borrowings are secured by first ranking charges granted by the Company, Transurban Finance Trust, Transurban Holdings Limited, Transurban Holding Trust, Transurban International Limited and Transurban Limited. The Company is a for-profit entity.

The Company has its registered office at Level 31, Tower 5, Collins Square, 727 Collins Street, Docklands VIC Australia 3008. The Company's ABN number is 65 098 539 452.

The financial statements of the Company for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Directors on 16 September 2021. Directors have the power to amend and reissue the financial statements.

B2 Summary of significant changes in the current reporting period

The financial position and performance of the Company was particularly affected by the following transactions during the reporting period:

Issuance of senior secured notes

In September 2020, the Company issued US$900,000 thousand of senior secured 10.5 year notes in the 144A / Reg S market. All proceeds from the notes were swapped into Australian dollars and the interest exposure was fully hedged for the term of the notes.

Sale of 50% interest in Transurban Chesapeake (TC)

In December 2020, the Company entered into forward FX contracts to fix the majority of the expected net US dollar proceeds from the Transurban Group's divestment of 50% of its equity interest in Transurban Chesapeake. Subsequently in March 2021, the Company entered into a foreign exchange agreement with a related party to fix its associated USD exposure, resulting in a foreign exchange gain of $23,996 thousand being recognised within the profit and loss at the date of financial close for the Transurban Chesapeake divestment on 31 March 2021. Under the foreign exchange agreement, the Company received $2,157 million in proceeds from the related party, of which $2,133 million was used to close out the US dollar forward FX contracts and subsequently repay the associated related party loan.

Movements in foreign exchange affecting the remeasurement of financial instruments

In the year ended 30 June 2021 the Company observed a significant appreciation in the AUD relative to foreign currencies, which has resulted in an increase in unrealised losses recorded in net finance costs compared to the prior comparative period. Excluding borrowings held in foreign currencies where the Company has a natural hedge via loans to related parties denominated in the same currency, the Company has entered into cross-currency interest rate swaps that hedge 100% of its economic exposure to borrowings held in foreign currencies. Notwithstanding this, for those cross-currency interest rate swap contracts that designate the entire fair value of the cross-currency interest swap contract as the hedging instrument (including the foreign currency basis spread), hedge accounting ineffectiveness is the primary driver of the unrealised remeasurement loss attributable to derivative financial instruments of $48,439 thousand (2020: $16,384 thousand unrealised remeasurement gain) for the year ended 30 June 2021 included in net finance costs.

B3 Basis of preparation

The financial statements are general purpose financial statements which:

- Have been prepared in accordance with the *Corporations Act 2001*, Australian accounting standards (AAS) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- Have adopted all accounting policies in accordance with AAS, and where a standard permits a choice in accounting policy, the policy adopted by the Company has been disclosed in these financial statements;
- Comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- Have been prepared under the historical cost convention, as modified by the revaluation of other financial assets and liabilities (including derivative financial instruments);
- Are presented in Australian dollars, which is the Company's functional and presentation currency;
- Have been rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191; and
- Have restated the presentation of comparative amounts, where applicable, to conform to the current period presentation.

Going concern

The financial report has been prepared on a going concern basis, which assumes the continuity of normal operations. In determining the appropriateness of the basis of preparation, the Directors have also considered the impact of COVID-19 on the Company's operations and in particular the next 12 months from the financial statements release date on 16 September 2021.

While the long-term strategy of the Company remains unchanged, the ongoing impact of COVID-19 is uncertain and represents a significant risk to the global economy.

In response to this uncertainty, the Company has critically assessed cash flow forecasts for the 12 months from the date of this report, taking into consideration an estimate of the potential continued impacts of COVID-19. The Company has recorded a net cash outflow from operating activities of $26,365 thousand in the year ended 30 June 2021 (2020: net cash inflow of $6,312 thousand). The majority of the Company's cash flows are received from related parties within the Transurban Group, which have continued to generate positive operating cash flows despite the impacts of COVID-19. In addition, the Company has considered the ability to fund its net liability position as at 30 June 2021 of $148,920 thousand (2020: net liabilities of $224,145 thousand), noting that it has net current liabilities of $4,335 thousand (2020: net current liabilities of $16,930 thousand). The net liability position has reduced from 30 June 2020 primarily due to the impact of the appreciation of the AUD relative to foreign currencies on the remeasurement of derivative financial instruments (refer to note B9 for further details). Scenario analysis has been undertaken on cash flow forecasts to reflect funding future debt refinancing through the use of existing debt facilities and cash and cash equivalents as at 30 June 2021. Based on the analysis, which includes judgement, the Company is expected to have sufficient headroom to continue to operate within available cash levels and the terms of its debt facilities.

Despite the impact of COVID-19 on the global economy, the Company has been successful in accessing credit markets at market rates. In the year ended 30 June 2021, the Company received $1,239,157 thousand (US$900,000 thousand) in proceeds from the issuance of senior secured 10.5 year notes in the 144A / Reg S market. These funds have been used to repay corporate debt maturities, as well as funding the Transurban Group's development pipeline and for general corporate purposes.

The Company has also forecast that it does not expect to breach any financial covenants within the next 12 months from the date of this report. Financial covenant forecasts utilised the same underlying cash flow forecasts as those described above. Covenants are calculated on a trailing 12 month basis.

Furthermore, the Directors have also taken the following matters into consideration in forming the view that the Company is a going concern:

- The Company has available a total of $2,650,000 thousand undrawn general purpose borrowing facilities across a number of financial providers with maturities beyond 12 months; and
- The Company has the ability to fund the net current liability position through the use of undrawn facilities.

B3 Basis of preparation (continued)

Foreign currency translation

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 profit and loss, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit and loss are recognised in the profit and loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in the fair value reserve in equity.

New and amended standards and interpretations

The Company has adopted the following new or amended accounting standards and interpretations which became effective for the annual reporting period commencing 1 July 2020. The Company's assessment of the impact of these new standards and interpretations is set out below.

Reference	Description and impact on the Company
AASB 2018-6 *Amendments to Australian Accounting Standards—Definition of a Business*	Amendments to AASB 3 revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. To be a business without outputs, there would need to be an organised workforce. Application of the new standard is prospective for acquisitions occurring on or after 1 July 2020. There was no impact on the Company from adopting the new standard.
AASB 2018-7 *Amendments to Australian Accounting Standards—Definition of Material*	Amendments are primarily to AASB 101 and AASB 108 to refine the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. Application of the amendments has not materially impacted the Company.
AASB 2019-1 *Conceptual Framework for Financial Reporting* *Amendments to Australian Accounting Standards—References to the Conceptual Framework*	The AASB issued a revised Conceptual Framework which will initially only apply to for-profit private sector entities that have public accountability and are required by legislation to comply with AAS, and to other for-profit entities that elect to apply it. The key amendments include revising the definition and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. No changes have been made to existing AAS, however the updated concepts should be used when an existing accounting standard does not provide relevant guidance for a transaction. AASB 2019-1 makes consequential changes to other standards so that they retain the previous Framework for the preparation and presentation of financial statements for entities that do not have to apply the revised Framework. The revised Framework has not materially impacted the Company given there is no change to existing AAS and there are no existing transactions that require the application of the revised Framework.
AASB 2019-5 *Amendments to Australian Accounting Standards—Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	Amendments to AASB 1054 to clarify that in order for an entity to assert compliance with IFRS in its financial statements, it is required to disclose the potential effect on its financial statements of an IFRS that has not yet been issued by the AASB as at reporting date. Application of the amendments has not impacted the Company.
AASB 2020-4 *Amendments to Australian Accounting Standards—COVID-19 Related Rent Concessions*	This standard amends AASB 16 to provide lessees with an optional practical expedient in assessing whether a COVID-19 related rent concession is a lease modification. The optional practical expedient allows any impact from the change in lease payments (originally due before 30 June 2021) to be recognised directly in the profit and loss. The amending standard also requires disclosure of the use of the election and the amount recognised in the profit and loss as a result. Application of this standard has not impacted the Company.

B3 Basis of preparation (continued)

Accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published but are not mandatory for the year ended 30 June 2021. The Company's assessment of the impact of these new standards and interpretations is set out below.

Reference	Description and impact on the company	Application of the standard	Application by the Company
AASB 2014-10 *Amendments to Australian Accounting Standards—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The AASB has made limited scope amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in AASB 3 *Business Combinations*). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interest in the associate or joint venture. Application of the new standard is prospective and is not expected to materially impact the Company.	1 January 2022	1 July 2022
AASB 2020-1 *Amendments to Australian Accounting Standards—Classification of Liabilities as Current or Non-current* **AASB 2020-*6*** *Amendments to Australian Accounting Standards—Classification of Liabilities as Current or Non-current – Deferral of Effective Date*	AASB 2020-1 amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. AASB 2020-6 defers the application date of AASB 2020-1 by one year. Application of the amendments is not expected to materially impact the Company.	1 January 2023	1 July 2023
AASB 2020-3 *Annual improvements 2018–2020 Cycle and Other Amendments*	The following small amendments were made to accounting standards: • Annual Improvements 2018-2020 Cycle make minor amendments to AASB 1 *First-time Adoption of International Financial Reporting Standards*, AASB 9 *Financial Instruments* and the Illustrative Examples accompanying AASB 16 *Leases* to clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards; • Amendments to AASB 3 *Business Combinations* update a reference in AASB 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations; • Amendments to AASB 116 *Property, Plant and Equipment* require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in the profit and loss, instead of deducting the amounts received from the cost of the asset; and • Amendments to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* clarify which costs a Company includes when assessing whether a contract will be onerous. The application of the above amendments is prospective following the application date by the Company and is not expected to materially impact the Company.	1 January 2022	1 July 2022

B3 Basis of preparation (continued)

Accounting standards and interpretations issued but not yet effective (continued)

Certain new accounting standards and interpretations have been published but are not mandatory for the year ended 30 June 2021. The Company's assessment of the impact of these new standards and interpretations is set out below.

Reference	Description and impact on the company	Application of the standard	Application by the Company
AASB 2020-8 *Amendments to Australian Accounting Standards—Interest Rate Benchmark Reform—Phase 2*	This standard amends AASB 9 *Financial Instruments*, AASB 16 *Leases* and AASB 7 *Financial Instruments: Disclosures*, providing certain relief for hedge accounting and changes to contractual cash flows of financial instruments (including lease liabilities) due to the reform of inter-bank offered rates. The relief enables hedge accounting to continue for certain hedges that might otherwise need to be discontinued once an alternative benchmark interest rate is available. It also allows the recalculation of the carrying amount of a financial instrument using an updated effective interest rate to reflect the change to the benchmark rate for the purpose of discounting the revised contractual cash flows. The application of the amendments is not expected to materially impact the Company.	1 January 2021	1 July 2021
AASB 2021-2 *Amendments to Australian Accounting Standards—Disclosure of Accounting Policies and Definition of Accounting Estimates*	The standard amends AASB 7 *Financial Instruments: Disclosures*, AASB 101 *Presentation of Financial Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 134 *Interim Financial Reporting* and AASB Practice Statement 2 Making Materiality Judgements to: • improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements; and • distinguish changes in accounting estimates from changes in accounting policies. The application of the amendments is not expected to materially impact the Company.	1 January 2023	1 July 2023
AASB 2021-3 *Australian Accounting Standards—COVID-19 Related Rent Concessions beyond 30 June 2021*	AASB 2021-3 extends the date of the practical expedient provided to lessees in AASB 2020-4 from 30 June 2021 to 30 June 2022. The practical expedient allows lessees to recognise any change in lease payments (now due before 30 June 2022) arising from a COVID-19 related rent concession directly in the profit and loss and not have to assess whether it is lease modification. The Application of this standard is not expected to materially impact the Company.	1 April 2021	1 July 2021
AASB 2021-5 *Amendments to Australian Accounting Standards—Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	AASB 2021-5 has made amendments to AASB 1 First-time Adoption of Australian Accounting Standards and AASB 112 Income Taxes which require companies in specified circumstances to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Transactions that are expected to be captured by the amendments include leases where the entity is a lessee and decommissioning obligations. The amendments are not expected to materially impact the Company as there are no transactions expected to be captured within the amendments.	1 January 2023	1 July 2023

B3 Basis of preparation (continued)

Critical accounting estimates and judgements

Estimates and judgements are regularly made by management and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

- Provision for income taxes—Note B5
- Fair value of derivatives and other financial instruments—Note B9

Key estimate and judgement

The Company has made a number of estimates and judgements as at 30 June 2021 as a result of COVID-19. These estimates and judgements are included in the notes to the financial statements as applicable.

Operating performance

B4 Segment information

The power for managing the business of TFC is vested in the Directors, with the Board of Directors determined to be the chief operating decision maker of the Company.

Information reported to the Board of Directors for the purposes of resource allocation and performance assessment is focused on the singular activity of the Company, which is to obtain and manage the external funding requirements of the Transurban Group. The Company therefore is viewed as a single reportable segment and information on the reportable segment is consistent with the amounts reported in the financial statements.

B5 Income tax

Income tax expense/(benefit)

	2021 $'000	2020 $'000
Current tax	15,604	5,294
Deferred tax	(12,910)	(9,496)
	2,694	**(4,202)**
Deferred income tax benefit included in income tax expense/(benefit) comprises:		
(Increase)/decrease in deferred tax assets	(13,562)	(16,947)
Increase/(decrease) in deferred tax liabilities	652	7,451
	(12,910)	**(9,496)**

Reconciliation of income tax expense/(benefit) to prima facie tax payable

	2021 $'000	2020 $'000
Profit/(loss) before income tax expense/(benefit)	**8,979**	**(14,005)**
Tax at the Australian tax rate of 30% (2020: 30%)	2,694	(4,202)
Income tax expense/(benefit)	**2,694**	**(4,202)**
Tax expense/(income) relating to items of other comprehensive income and equity		
Cash flow hedges (note B12)	27,424	(19,601)
Cost of hedging (note B12)	2,066	–
	29,490	**(19,601)**

Deferred tax assets and liabilities

	Assets		Liabilities	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
The balance comprises temporary differences attributable to:				
Provisions	7,445	9,539	–	–
Cash flow hedges	111,287	201,243	(30,339)	(79,583)
Unrealised FX	–	–	(55,981)	(82,207)
Total assets/(liabilities)	**118,732**	**210,782**	**(86,320)**	**(161,790)**
Set-off of tax	(86,320)	(161,790)	86,320	161,790
Net tax assets/(liabilities)	**32,412**	**48,992**	**–**	**–**
Movements:				
Opening balance at 1 July	**210,782**	**94,493**	**(161,790)**	**(74,598)**
Credited/(charged) to the statement of comprehensive income	13,562	16,947	(652)	(7,451)
Credited/(charged) to equity	(105,612)	99,342	76,122	(79,741)
Closing balance at 30 June	**118,732**	**210,782**	**(86,320)**	**(161,790)**
Deferred tax assets/(liabilities) to be recovered after more than 12 months	**118,732**	**210,782**	**(86,320)**	**(161,790)**

The Company has reviewed its deferred tax assets with reference to the potential impacts of COVID-19 on forecast taxable profits. Management have determined that it is probable that future taxable profits will be available to utilise against deferred tax assets recognised as at 30 June 2021.

B5 Income tax (continued)

Accounting policy

The income tax expense/(benefit) for the period is the tax payable or benefit on the current period's taxable income or loss based on Australian income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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.

Current and deferred tax is recognised in the profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Tax consolidation

The Company is a member of the Transurban Holdings Limited (THL) tax consolidated group.

Members of the tax consolidated group have entered into a tax funding agreement (TFA). Under the TFA the wholly-owned entities fully compensate THL for any current tax payable assumed and are compensated by THL for any current tax receivable and deferred tax assets relating to tax losses. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amount receivable/payable under the TFA is calculated at the end of the financial year for each wholly-owned entity. THL determines and communicates the amount payable/receivable to each wholly-owned entity along with the method of calculation and any other information deemed necessary.

Members of the tax consolidated group have also entered into a tax sharing agreement (TSA) that provides for the allocation of income tax liabilities between the entities should THL default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

All entities within the tax consolidated 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 is a separate taxpayer within the tax consolidated group.

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 flows.

Key estimate and judgement

The Company is subject to income taxes in Australia. Significant judgement 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 Company recognises liabilities for anticipated tax audit issues based on whether additional taxes will be due. Where the final tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

B6 Working capital

The Company's working capital balances are summarised as follows:

	Note	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents		5,109	1,027
Trade and other receivables		10	135
Loans to related parties[1]		164,988	186,956
		170,107	**188,118**
Current liabilities			
Trade payables		(24)	(96)
Interest payable		(156,042)	(176,518)
Commitment fees payable		(61)	(2,271)
Loans from related parties	B15	(40,385)	(53,748)
		(196,512)	**(232,633)**
Net working capital		**(26,405)**	**(44,515)**

1 Balances shown relate only to accrued interest income and finance charges recoverable from related parties and exclude any principal balances

Accounting Policy

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All cash balances are interest bearing.

B7 Reconciliation of profit/(loss) after income tax to net operating cashflow

	2021 $'000	2020 $'000
Profit/(loss) for the year	6,285	(9,803)
Adjustments for:		
Net exchange differences	(33,756)	24,348
Non-cash net finance (income)/costs	49,165	(14,674)
Change in operating assets and liabilities:		
(Decrease)/increase in interest payables	(20,476)	35,514
(Decrease)/increase in trade and other payables	(2,282)	669
Decrease/(increase) in receivables	125	(112)
Decrease/(increase) in current and deferred tax	2,694	(4,202)
Increase/(decrease) in capitalised premiums and discounts on borrowings	2,187	(3,860)
(Increase) in loans to related parties	(30,307)	(21,568)
Net cash (outflow)/inflow from operating activities	**(26,365)**	**6,312**

Capital and borrowings

B8 Net finance income/(costs)

	Note	2021 $'000	2020 $'000
Finance income			
Interest income from related parties		419,199	390,875
Finance charges recovered from related parties		26,431	36,321
Interest income on bank deposits held at amortised cost		17	17
Unrealised remeasurement gain attributable to derivative financial instruments		–	16,384
Movement in expected credit losses on loans to related parties	B15	6,979	–
Net foreign exchange gains		33,756	–
Total finance income		**486,382**	**443,597**
Finance costs			
Interest and finance charges paid/payable		(426,060)	(415,055)
Interest and finance charges paid/payable to related parties		(2,885)	(2,730)
Unrealised remeasurement loss attributable to derivative financial instruments		(48,439)	–
Movement in expected credit losses on loans to related parties	B15	–	(15,469)
Net foreign exchange losses		–	(24,348)
Total finance costs		**(477,384)**	**(457,602)**
Net finance income/(costs)		**8,998**	**(14,005)**

Finance income

Finance income is measured at the fair value of the consideration received or receivable. The Company generates the following types of finance income:

- Interest income from related parties—recognised using the effective interest method; and
- Finance charges recovered from related parties—recognised when the service has been provided by the lender.

Unrealised remeasurement loss attributable to derivative financial instruments

The Company uses derivative financial instruments in the normal course of business to hedge exposures to fluctuations in interest rates and foreign exchange rates in accordance with the Company's financial risk management policies. Excluding borrowings held in foreign currencies where the Company has a natural hedge via loans to related parties denominated in the same currency, the Company has entered into cross-currency interest rate swaps that hedge 100% of its economic exposure to borrowings held in foreign currencies. The cross-currency interest rate swap contracts hedge the risk of unfavourable foreign exchange rate movements on borrowings denominated in foreign currencies. Under the swap contracts, the Company receives foreign currency at fixed rates and pays AUD at either fixed or floating rates.

At the end of each reporting period the Company remeasures the cross-currency interest rate swap contracts at fair value and applies hedge accounting. The periodic remeasurement of the cross-currency interest rate swap contracts to fair value includes an element of foreign currency basis spread. For those cross-currency interest rate swap contracts that designate the entire fair value of the cross-currency interest swap contract as the hedging instrument (including the foreign currency basis spread component), this can result in ineffectiveness in the hedging relationship that is recognised in the profit and loss.

In the year ended 30 June 2021 the Company observed a significant appreciation in the AUD relative to other foreign currencies, which resulted in a significant change in the fair value of these cross-currency interest rate swaps (including the foreign currency basis spread), as outlined at Note B9. While the Company has removed the cash flow risk of unfavourable exchange rate movements through the use of these swaps, hedge accounting ineffectiveness is the primary driver of the net unrealised remeasurement loss attributable to derivative financial instruments for the year ended 30 June 2021.

B9 Derivatives and financial risk management

Derivatives

	2021 $'000 Current	2021 $'000 Non-current	2020 $'000 Current	2020 $'000 Non-current
Assets				
Cross-currency interest rate swap contracts—cash flow hedges	–	100,939	70,513	197,829
Forward exchange contract—cash flow hedges	190	–	165	–
Total derivative financial instrument assets	**190**	**100,939**	**70,678**	**197,829**
Liabilities				
Interest rate swap contracts—cash flow hedges	–	–	1,310	–
Cross-currency interest rate swap contracts—cash flow hedges	–	352,793	74,673	197,086
Forward exchange contracts—cash flow hedges	–	20	17,587	–
Total derivative financial instrument liabilities	**–**	**352,813**	**93,570**	**197,086**

Accounting policy

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 the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

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

At the inception of the hedging transaction the Company documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company 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 this note. 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.

Cash flow hedges

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

Amounts accumulated in equity are reclassified to the profit and loss in the periods when the hedged item affects the profit and loss.

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 at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss. 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 profit and loss.

The Company has elected to exclude currency basis spread from its cash flow hedge relationships where the designated hedging instrument is a cross-currency interest rate swap entered into on or after 1 July 2020. Changes in currency basis spread from 1 July 2020 are recognised through other comprehensive income in a separate cost of hedging reserve (refer to Note B12).

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 hedge accounting are recognised immediately in the profit and loss.

B9 Derivatives and financial risk management (continued)

Hedging strategy and instruments used by the Company

The Company uses derivative financial instruments in the normal course of business in order to hedge exposures to fluctuations in interest rates and foreign exchange rates in accordance with the Company's financial risk management policies. The Company's policies allow derivative transactions to be undertaken for the purpose of reducing risk and do not permit speculative trading. The instruments used by the Company are as follows:

Interest rate swap contracts—cash flow hedges

The Company uses interest rate swap contracts to manage the Company's exposure to variable interest rates related to borrowings. Interest rate swap contracts currently in place cover 100% (2020: 100%) of the variable debt held by the Company (excluding working capital facilities).

Forward exchange contracts—cash flow hedges

The Company currently uses forward exchange contracts to protect against exchange rate movements between the AUD and foreign currencies. The Company has hedged a portion of its USD and CAD interest commitments.

Cross-currency interest rate contracts—cash flow hedges

The Company has entered into cross-currency interest rate swap contracts to remove the risk of unfavourable exchange rate movements on borrowings held in foreign currencies. Under these contracts, the Company receives foreign currency at fixed rates and pays AUD at a fixed rate.

Offsetting financial assets and financial liabilities

Currently there is no right or basis to present any financial assets or financial liabilities on a net basis, and as such no financial assets or financial liabilities have been presented on a net basis in the Company's balance sheet at the end of the financial year.

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The financial risk management function is carried out centrally under the policies approved by the Board. The Company reviews operations actively to identify and monitor all financial risks and to mitigate these risks through the use of hedging instruments where appropriate. The Board is kept informed in a timely manner of any material exposures to financial risks.

The Company monitors continuously risk exposures over time through reviewing cash flows sensitivities, market analysis and ongoing communication within the Company. When measuring financial risk, the Company considers the positive and negative exposures, existing hedges and the ability to offset exposures where possible.

Market risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk when future transactions and liabilities are denominated in a currency that is not the entity's functional currency.

All known material operating exposures out to 12 months are hedged using hedging instruments, or are offset by drawing on foreign currency funds. The Company uses hedging instruments such as cross-currency swaps to manage these exposures.

The effects of the foreign currency related hedging instruments on the Company's financial position and performance are as follows:

	2021 $'000	2020 $'000
Cross-currency interest rate swaps		
Carrying amount	(251,854)	(3,417)
Notional amount	7,411,206	6,776,983
Maturity dates	Sep 2024 to Jul 2034	Aug 2020 to Jul 2034
Hedge ratio	1:1	1:1
Change in discounted value of outstanding hedging instruments	(406,451)	(100,607)
Change in value of hedged item used to determine hedge effectiveness	444,119	116,951

B9 Derivatives and financial risk management (continued)

Market risk (continued)

Foreign exchange risk (continued)

2021 $'000	Less than 12 months	1–5 years	Over 5 years	Total notional amount
Cross-currency swaps (AUD:USD)	–	50,000	1,517,392	1,567,392
Average AUD-USD exchange rate	–	0.72	0.73	N/A
Average fixed interest rate[1]	–	5.5%	4.3%	N/A
Cross-currency swaps (AUD:EUR)	–	1,100,000	2,200,000	3,300,000
Average AUD-EUR exchange rate	–	0.71	0.61	N/A
Average fixed interest rate[1]	–	5.3%	4.3%	N/A
Cross-currency swaps (AUD:NOK)	–	–	750,000	750,000
Average AUD-NOK exchange rate	–	–	6.42	N/A
Average fixed interest rate[1]	–	–	4.5%	N/A

1 Based on average fixed rate of cross currency swap contracts, which does not include any margins that may be applicable on the hedged debt instrument

2020 $'000	Less than 12 months	1–5 years	Over 5 years	Total notional amount
Cross-currency swaps (AUD:USD)	(148,150)	–	667,392	519,242
Average AUD-USD exchange rate	0.76	–	0.73	N/A
Average fixed interest rate[2]	3.2%	–	5.4%	N/A
Cross-currency swaps (AUD:EUR)	500,000	600,000	2,700,000	3,800,000
Average AUD-EUR exchange rate	0.71	0.72	0.63	N/A
Average fixed interest rate[2]	4.4%	5.4%	4.4%	N/A
Cross-currency swaps (AUD:NOK)	–	–	750,000	750,000
Average AUD-NOK exchange rate	–	–	6.42	N/A
Average fixed interest rate[2]	–	–	4.5%	N/A

2 Based on average fixed rate of cross currency swap contracts, which does not include any margins that may be applicable on the hedged debt instrument

Effectiveness of hedging relationships designated are as follows:

2021 $'000	Hedge losses/(gains) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from other comprehensive income to profit or loss	Line item in profit or loss for reclassification
Foreign currency risk	164,987	48,439	Net finance costs	5,353	Net finance costs

2020 $'000	Hedge losses/(gains) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from other comprehensive income to profit or loss	Line item in profit or loss for reclassification
Foreign currency risk	15,702	(16,384)	Net finance costs	13,059	Net finance costs

Exposure to foreign currency risk at the reporting date, denominated in the currency in which the risk arises, was as follows:

	2021 Local $'000				2020 Local $'000			
	USD	EUR	CAD	NOK	USD	EUR	CAD	NOK
Cash and cash equivalents	92	33	4,546	15	475	11	84	10
Loans to related parties	–	–	791,315	–	1,015,004	–	737,691	–
Borrowings	(1,567,392)	(3,300,000)	(650,000)	(750,000)	(1,486,111)	(3,800,000)	(650,000)	(750,000)
Cross-currency interest rate swaps	1,567,392	3,300,000	–	750,000	519,242	3,800,000	–	750,000
FX forwards	10,363	–	20,183	–	304,650	(3,691)	–	–
Net exposure	**10,455**	**33**	**166,044**	**15**	**353,260**	**(3,680)**	**87,775**	**10**

B9 Derivatives and financial risk management (continued)

Market risk (continued)

Foreign exchange risk (continued)

Sensitivity to exchange rate movements based on the translation of financial instruments held at the end of the period is as follows:

	2021 $'000 Movement in post-tax profit	2021 $'000 Increase/(decrease) in equity	2020 $'000 Movement in post-tax profit	2020 $'000 Increase/(decrease) in equity
AUD/USD				
+ 10 cents	(8,581)	(22,178)	(45,905)	(38,951)
- 10 cents	11,213	28,979	61,582	56,279
AUD/EUR				
+ 5 cents	(3)	(42,785)	(1)	(59,078)
- 5 cents	3	50,138	1	69,599
AUD/CAD				
+ 10 cents	(10,621)	(1,465)	(6,311)	(917)
- 10 cents	13,175	1,816	7,817	1,136
AUD/NOK				
+ 50 cents	–	(688)	–	(958)
- 50 cents	–	804	–	1,114

The Company re-values its foreign currency denominated borrowings each period using market spot rates and, where these borrowings have been appropriately hedged, defers these movements in the cash flow hedge reserve in equity. The volatility in the cash flow hedge reserve is caused mainly by fair value movements of the cross-currency interest rate swaps, which are affected by changes in forward Australian dollar/foreign currency exchange rates.

Interest rate risk

The Company's main exposure to interest rate risk arises from cash and cash equivalents, and long-term borrowings. The Company manages interest rate risk by entering into fixed rate debt facilities or by using interest rate swaps to convert floating rate debt to fixed interest rates.

The Company's policy is to hedge interest rate exposure on drawn debt to between 80% and 100% and to ensure compliance with any covenant requirements of funding facilities. Working capital facilities are also utilised for shorter term funding requirements. These facilities were undrawn at 30 June 2021 (2020: $100,000 thousand drawn). If required, these are refinanced with longer term funding which are hedged in accordance with the minimum covenant requirements. At 30 June 2021, the Company had no variable rate borrowings that were unhedged.

The effects of the interest rate related hedging instruments on the Company's financial position and performance are as follows:

	2021 $'000	2020 $'000
Interest rate swaps		
Carrying amount	–	(1,310)
Notional amount	–	205,920
Maturity dates	–	Aug 2020
Hedge ratio	–	1:1
Change in fair value of outstanding hedging instruments	–	9,807
Change in value of hedged item used to determine hedge effectiveness	–	(9,792)

Maturity profile—notional value of interest rate swaps are as follows:

2021 $'000	Less than 12 months	1–5 years	Over 5 years	Total notional amount
Interest rate swaps	–	–	–	–
Average fixed interest rate[1]	N/A	N/A	N/A	N/A

2020 $'000	Less than 12 months	1–5 years	Over 5 years	Total notional amount
Interest rate swaps	205,920	–	–	205,920
Average fixed interest rate[1]	6.0%	–	–	N/A

1 Based on average fixed rate of interest rate swap contracts, which does not include any margins that may be applicable on the hedged debt instrument

B9 Derivatives and financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Effectiveness of hedging relationships designated are as follows:

2021 $'000	Hedge gain/(loss) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from other comprehensive income to profit or loss	Line item in profit or loss for reclassification
Interest rate risk	–	–	Net finance costs	–	Net finance costs

2020 $'000	Hedge gain/(loss) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from other comprehensive income to profit or loss	Line item in profit or loss for reclassification
Interest rate risk	1,310	–	Net finance costs	–	Net finance costs

As at the reporting date, the Company had the following cash balances, variable rate borrowings and interest rate swap contracts outstanding:

	2021 $'000	2020 $'000
Cash and cash equivalents	5,109	1,027
Floating rate borrowings	–	(100,000)
Interest rate swaps (notional principal amount) [1]	–	–
Net exposure to interest rate risk	**5,109**	**(98,973)**

1 Notional interest rate swaps of $205,920 thousand for the year ended 30 June 2020 relate to USPP Aug 2005 fixed rate debt and are therefore not disclosed in this table

Sensitivity to interest rate movements based on variable rate cash balances, variable rate borrowings and interest rate swap contracts is as follows:

	Movement in post-tax profit and equity	
	2021 $'000	2020 $'000
Interest rates +100bps	–	(990)
Interest rates –100bps	–	990

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss. The Company is exposed to credit risk with its financial counterparties through financial transactions it has entered into in the ordinary course of business. These include funds held on deposit, cash investments and the market value of derivative transactions.

The Company assesses the credit strength of potential financial counterparties using objective ratings provided by multiple independent rating agencies. The Transurban Group Board approved policies ensure that higher limits are granted to higher rated counterparties. The Company also seeks to mitigate its total credit exposure to counterparties by only dealing with credit worthy counterparties, limiting the exposure to any one counterparty, minimising the size of the exposure where possible through netting offsetting exposures, diversifying exposures across counterparties, closely monitoring changes in total credit exposures and changes in credit status, and taking mitigating action when necessary.

Since the onset of COVID-19, credit exposures and compliance with internal credit limits continue to be monitored daily. An International Swaps and Derivatives Association (ISDA) agreement must be in place between the Company and the counterparty prior to executing any derivatives and netting provisions are included.

Due to the nature of the Company's operations, the only receivable balances recorded on the Company's balance sheet are loan balances receivable from the subsidiaries of the Transurban Group. While the Company is not a party to a deed of cross guarantee, the loan receivable balances are guaranteed under the corporate security trust deed and other specific deeds of guarantee. None of the loan amounts receivable from related parties are past due and repayments have been received regularly and on time historically. Refer to note B15 for details of the expected credit loss allowance.

Liquidity risk

The Company maintains sufficient cash and undrawn facilities to maintain short term flexibility and enable the Company to meet financial commitments in a timely manner. The Transurban Group assesses liquidity over the short term (up to 12 months) and medium term (1 to 5 years) by maintaining accurate forecasts of operating expenses, committed capital expenditure, debt maturities and payments to security holders. Long term liquidity requirements are reviewed as part of the annual strategic planning process. Further details on the measures employed by the Company to track and maintain sufficient liquidity can be found in note B3 Basis of preparation: Going concern.

B9 Derivatives and financial risk management (continued)

Liquidity risk (continued)

Financing arrangements

The Company has access to the following undrawn borrowing facilities at the end of the reporting period:

	2021 $'000	2020 $'000
Floating rate		
Expiring within one year	–	280,000
Expiring beyond one year	2,650,000	2,800,000
	2,650,000	**3,080,000**

As at 30 June 2021, the Company has letter of credit facilities and general credit facilities in place with undrawn capacity of $151,610 thousand (2020: $158,886 thousand). The facilities are committed for the duration of the facility and the undrawn portion cannot be withdrawn by the lenders.

Contractual maturities of financial liabilities

The amounts disclosed in the table are the contractual undiscounted cash flows of the Company's financial liabilities. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

2021 $'000	1 year or less	Over 1–2 years	Over 2–3 years	Over 3–4 years	Over 4–5 years	Over 5 years	Total contractual cash flows	Carrying amount
Trade payables	156,127	–	–	–	–	–	156,127	156,127
Loans from related parties	62,608	3,289	3,488	3,699	3,922	272,140	349,146	91,087
Borrowings	297,396	231,270	231,270	1,180,815	1,735,991	6,869,889	10,546,631	8,997,856
Cross-currency swaps[1]	150,652	150,630	150,539	150,653	123,026	371,028	1,096,528	251,854
FX forwards	(190)	20	–	–	–	–	(170)	(170)
Total	**666,593**	**385,209**	**385,297**	**1,335,167**	**1,862,939**	**7,513,057**	**12,148,262**	**9,496,754**

2020 $'000	1 year or less	Over 1–2 years	Over 2–3 years	Over 3–4 years	Over 4–5 years	Over 5 years	Total contractual cash flows	Carrying amount
Trade payables	178,885	–	–	–	–	–	178,885	178,885
Loans from related parties	56,677	3,105	3,292	3,491	3,702	158,745	229,012	101,606
Borrowings	1,221,647	454,829	211,021	211,021	1,192,219	7,537,867	10,828,604	9,283,478
Interest rate swaps[1]	3,016	–	–	–	–	–	3,016	1,310
Cross-currency swaps[1]	136,186	136,793	136,771	136,380	136,895	432,136	1,115,161	3,417
FX forwards	17,422	–	–	–	–	–	17,422	17,422
Total	**1,613,833**	**594,727**	**351,084**	**350,892**	**1,332,816**	**8,128,748**	**12,372,100**	**9,586,118**

1 The carrying value of the interest rate and cross-currency swaps has been presented on a net basis. The gross position is disclosed in the first table of note B9

Fair value measurements

The carrying amount of the Company's financial assets and liabilities approximate their fair value. This is also generally the case with borrowings since either the interest payable on those borrowings is close to current market rates or the borrowings are of a short-term nature. The fair values of non-current borrowings are determined based on discounted cash flows using a current borrowing rate. They are classified as level 2 fair values in the fair value hierarchy due to the use of observable inputs.

Fair value is categorised within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2—inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3—inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Company's financial instruments measured, recognised and disclosed at fair value are valued using market observable inputs (level 2). There were no transfers between levels during the period and there has been no change in the valuation techniques applied.

Key estimate and judgement

The fair value of financial instruments that are not traded in active markets (for example, over the counter derivatives) is determined using valuation techniques. The Company uses judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each reporting date. The fair value of both cross-currency interest rate swaps and interest rate swaps is calculated as 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 end of the reporting period.

B10 Borrowings

	2021 $'000	2020 $'000
Current		
Capital markets debt	–	816,763
U.S. private placement	215,675	228,251
Term debt	–	100,000
Total current borrowings	**215,675**	**1,145,014**
Non-current		
Capital markets debt	8,692,582	7,803,583
U.S. private placement	89,599	334,881
Total non-current borrowings	**8,782,181**	**8,138,464**
Total borrowings	**8,997,856**	**9,283,478**

Accounting policy

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised the profit or loss over the period of the borrowings on an effective interest basis. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 the profit and loss as finance income or finance costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs are recognised as expenses in the period in which they are incurred and include interest on short-term and long-term borrowings.

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

B10 Borrowings (continued)

Financing arrangements and credit facilities

Credit facilities are provided as part of the overall debt funding structure of the Company. The drawn component of each drawn facility is shown below.

		Carrying value	
	Maturity	2021 $'000	2020 $'000
Working capital facilities			
AUD 2,650m facility (2020: 1,650m)	Jul 2021[1]	–	100,000
Capital markets debt			
EMTN EUR 500m[2]	Jul 2020	–	817,665
EMTN EUR 600m	Sep 2024	949,546	981,199
EMTN EUR 500m	Aug 2025	791,288	817,665
US 144A USD 550m	Feb 2026	731,237	802,159
US 144A USD 550m	Mar 2027	731,237	802,159
EMTN NOK 750m	Jul 2027	116,484	112,373
EMTN EUR 500m	Mar 2028	791,288	817,665
EMTN CAD 650m	Nov 2028	697,630	692,987
EMTN EUR 600m	May 2029	949,546	981,199
EMTN EUR 750m	Apr 2030	1,186,932	1,226,498
US 144A USD 900m	Mar 2031	1,196,570	–
EMTN EUR 350m	Jul 2034	553,902	572,366
U.S. private placement			
Aug 2005—Tranche C USD 157m[2]	Aug 2020	–	228,251
Nov 2006—Tranche C USD 121m (plus accreted interest)	Nov 2021	215,675	236,592
Nov 2006—Tranche D USD 50m (plus accreted interest)	Nov 2026	89,599	98,289
Net capitalised borrowing costs		**(3,078)**	**(3,589)**
Total borrowings		**8,997,856**	**9,283,478**

1 *This represents the contractual maturity of the drawn component of the $825,000 thousand 3 year tranche of the A$2,650,000 thousand syndicated bank debt facility as at 30 June 2020. The 3 year tranche matures in November 2022*

2 *These facilities were repaid during FY21*

Working capital facility

This facility is secured by first ranking charges granted by the Company, Transurban Finance Trust, Transurban Holdings Limited, Transurban Holding Trust, Transurban International Limited and Transurban Limited.

Capital markets debt

A secured EMTN program was established in October 2011 with a program limit of USD2 billion, which increased to USD5 billion in May 2015 and to USD10 billion in March 2020. Under the program the Company may from time to time issue notes denominated in any currency. These facilities are secured by first ranking charges granted by the Company, Transurban Finance Trust, Transurban Holdings Limited, Transurban Holding Trust, Transurban International Limited and Transurban Limited.

The US 144A notes are secured by first ranking charges granted by the Company, Transurban Finance Trust, Transurban Holdings Limited, Transurban Holding Trust, Transurban International Limited and Transurban Limited.

U.S. private placement

The U.S. private placement facilities are secured by first ranking charges granted by the Company, Transurban Finance Trust, Transurban Holdings Limited, Transurban Holding Trust, Transurban International Limited and Transurban Limited.

B10 Borrowings (continued)

Letters of credit and corporate credit facilities

	Maturity	2021 $'000 Facility amount	2021 $'000 Amount issued	2020 $'000 Facility amount	2020 $'000 Amount issued
Letter of credit facility	Jan 2021	–	–	139,458	139,458
Letter of credit facilities[1]	Dec 2021	117,929	117,929	55,250	55,250
Letter of credit facility[1]	Apr 2022	199,428	116,997	218,771	123,091
Letter of credit facility	Nov 2022	55,000	42,863	55,000	42,875
General credit facility	Dec 2022	6,000	5,000	6,000	5,000
Letter of credit facilities[1]	Dec 2022	153,989	97,947	150,000	99,919
Letter of credit facility	Dec 2023	–	–	91,808	91,808
Total		**532,346**	**380,736**	**716,287**	**557,401**

1 These facilities were refinanced during FY 2021

There are no claims against any of the issued letters of credit and therefore no liability is recorded as at 30 June 2021 (2020: nil).

Covenants

A number of the Company's borrowings include financial covenants, which are listed below. There have been no breaches of any of these covenants during the year.

The Company monitors covenants by applying forecast cash flows to ensure ongoing compliance with its obligations. This enables capital management decisions to be made at the asset level (including distributions) and considers any management actions that can be undertaken should actual cashflows not perform to budget. Refer to the Company's going concern note (Note B3) for disclosure concerning forecast debt covenants that consider the impact of COVID-19.

Debt covenants are calculated on a trailing 12 month basis, moderating short-term earnings impacts. A trailing 12 month metric also enables management action to be taken swiftly to mitigate the risks of any covenant breaches.

Covenant	Covenant breach threshold
Senior interest Coverage Ratio	Greater than 1.25 times
Transurban Group Market Capitalisation	Gearing must not exceed 60%[1]
CityLink Interest Coverage Ratio	Greater than 1.1 times

1 Based on the balance sheet as at 30 June 2021, the Transurban Group's average closing security price over 20 consecutive business days would need to be below $3.83 (2020: $5.01) per security to trigger this clause. The Transurban Group's closing share price as at 30 June 2021 was $14.23 per security

B11 Contributed equity

Share capital

	2021 $	2020 $
Fully paid ordinary shares issued at $1 each	12	12

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote.

No dividends were declared / paid during the year.

B12 Reserves

Reserves

	2021 $'000	2020 $'000
Cash flow hedges	(162,043)	(226,161)
Cost of hedging	4,822	–
Tax consolidation reserve	(492)	(492)
Total	**(157,713)**	**(226,653)**

Movements

	Cash flow hedge reserve $'000	Cost of hedging $'000	Tax consolidation reserve $'000	Total $'000
Balance 1 July 2020	**(226,161)**	**–**	**(492)**	**(226,653)**
Revaluation—gross	(30,059)	6,888	–	(23,171)
Transfer to net profit—gross	121,601	–	–	121,601
Deferred tax (note B5)	(27,424)	(2,066)	–	(29,490)
Balance 30 June 2021	**(162,043)**	**4,822**	**(492)**	**(157,713)**
Balance 1 July 2019	**(180,555)**	**–**	**(492)**	**(181,047)**
Revaluation—gross	(56,421)	–	–	(56,421)
Transfer to net profit—gross	(8,786)	–	–	(8,786)
Deferred tax (note B5)	19,601	–	–	19,601
Balance 30 June 2020	**(226,161)**	**–**	**(492)**	**(226,653)**

Nature of reserves	Purpose of reserves
Cash flow hedge	Used to record gains or losses on cash flow hedging instruments (to the extent these are part of an effective hedge relationship), which are used by the Company to mitigate the risk of movements in exchange rates and interest rates. Amounts are reclassified to profit or loss when the transaction to which the hedge is linked (such as the payment of interest) affects profit or loss.
Cost of hedging	Used to record changes in the fair value of our hedging instruments attributable to movements in currency basis spread (where this element is excluded from the designated hedge relationship). Amounts accumulated in the cost of hedging reserve are reclassified to the profit and loss when hedge accounting is discontinued.
Tax consolidation	In prior years, the tax consolidation reserve was used to record current tax payable and losses which were transferred to Transurban Holdings Limited as the head entity of the tax consolidated group. The current treatment has changed as a result of a Tax Funding Agreement (refer to note B5).

Items not recognised

B13 Contingent liabilities

The Company had no contingent liabilities at 30 June 2021 (2020: nil).

B14 Commitments

There are no commitments as at the reporting date (2020: nil).

Other

B15 Related party transactions

Related party entities

All entities within the Transurban Group are related parties of the Company. The Company is controlled by its parent company Transurban Holdings Limited.

Interest income and finance charges recovered relate to loans to related parties. The loans to related parties are funds loaned to Transurban Finance Trust and Transurban Funding Pty Ltd and are interest bearing.

The loans from related parties are funds loaned from Transurban Holding Trust and Transurban Limited and are interest bearing.

Accounting Policy

Loans to related parties

Loans to related parties are recognised initially at fair value. The Company intends to hold these assets to maturity and to collect contractual cash flows. These cash flows consist solely of payments of principal and interest on the principal amounts outstanding. Given this, these financial assets are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. The loans to related parties are made on terms equivalent to those that prevail in arm's length transactions.

The loss allowance for loans to related parties has been limited to 12 months of expected credit losses. Management have assessed the impacts arising from COVID-19 and do not consider there to be evidence of a significant increase in credit risk since initial recognition of these balances. This is mainly due to there being no significant change in the nature of or the collectability of these balances. These balances continue to have low credit risk as they have a low risk of default and the counterparties have a strong capacity to meet their contractual cash flow obligations in the near term. The expected loss rates are based on the assessed credit ratings of each related party counterparty and external market data for historical credit losses associated with debt with an equivalent credit profile. As at 30 June 2021, the expected loss rates have been adjusted to incorporate forward-looking information about the potential impacts of COVID-19 and reflect management's estimate based on the information available as at 30 June 2021.

Transactions with related parties

	2021 $	2020 $
Finance costs		
Interest and finance charges paid / payable	(2,855,674)	(2,730,858)
	(2,855,674)	**(2,730,858)**
Finance income and charges recovered		
Interest income	419,199,369	390,874,615
Finance charges recovered	26,430,705	36,320,563
	445,630,074	**427,195,178**
Outstanding balances with related parties		
Current loans to related parties	403,558,814	1,386,060,407
Expected credit loss allowance	(1,015,804)	(3,613,870)
Net loans to related parties—current	**402,543,010**	**1,382,446,537**
Non-current loans to related parties	8,931,542,281	7,957,535,108
Expected credit loss allowance	(23,782,030)	(28,163,281)
Net loans to related parties—non current	**8,907,760,251**	**7,929,371,827**
Loans from relates parties—current	(40,385,023)	(53,748,318)
Loans from relates parties—non current	(50,702,101)	(47,857,783)
Total related party balances	**9,219,216,137**	**9,210,212,263**

B15 Related party transactions (continued)

Loans to related parties

The 12 month loss allowance as at balance date was determined as follows for loans to related parties:

30 June	2021	2020
Expected loss rate	0.266%	0.344%
Loss allowance ($)	(24,797,834)	(31,777,151)

The closing loss allowances for loans to related parties reconciles to the opening loss allowance as follows:

	2021 $	2020 $
Opening loss allowance	**(31,777,151)**	**(16,308,646)**
Decrease/(increase) in loss allowance recognised in profit or loss during the year	6,979,317	(15,468,505)
Receivables written off during the year as uncollectible	–	–
Closing loss allowance	**(24,797,834)**	**(31,777,151)**

B16 Key management personnel compensation

	2021 $	2020 $
Short-term employee benefits	5,594,859	4,242,172
Post-employment benefits	66,069	49,237
Long-term benefits	22,608	168,622
Share-based payments	702,870	588,055
Deferred short term incentives	1,616,713	1,429,803
	8,003,119	**6,477,889**

Detailed remuneration disclosures including the key management personnel are made in the remuneration report in the Directors' Report.

B17 Economic dependency

The Company is reliant on the receipt of interest and related finance charges from Transurban Finance Trust and Transurban Funding Pty Ltd for its ongoing viability.

B18 Remuneration of auditors

Fees associated with audit services have been borne by a related party, Transurban Limited.

B19 Subsequent events

Other than as disclosed elsewhere in this report, there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected, or may significantly affect, the Company's operations, the results of those operations, or the Company's state of affairs in the future years.

Section C: Signed reports

Directors' declaration for the year ended 30 June 2021

In the opinion of the Directors of Transurban Finance Company Pty Ltd:

a. the financial statements and notes of Transurban Finance Company Pty Ltd set out on pages 22 to 49 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 Company's financial position as at 30 June 2021 and of its performance for the year ended on that date, and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note B3 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.

Henry Byrne
Director

Melbourne
16 September 2021

Independent auditor's report

To the members of Transurban Finance Company Pty Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Transurban Finance Company Pty Ltd (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

Transurban Finance Company Pty Ltd is Transurban Holdings Limited and its controlled entities' (together, the Transurban Group) corporate funding vehicle. The principal activities of the Company are to obtain and manage the external funding requirements of the Transurban Group. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Transurban Finance Company Pty Ltd, its accounting processes and controls and the industry in which it operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Borrowings

Note B10:
Current: $215,675 thousand
Non-Current: $8,782,181 thousand

Key audit matter	How our audit addressed the key audit matter
Borrowings are an integral part of Transurban Finance Company Pty Ltd's operations as it provides the funds used by the Transurban Group to fund new projects and upgrades to existing concession assets. Borrowings represent the largest liability on the balance sheet. During the year the Company continued to refinance borrowings through note issuances and new bank facilities. Each of the borrowing agreements has its own set of terms and conditions and therefore audit work was required to assess the treatment of the agreements and their impact on the financial statements. We considered this to be a key audit matter for the Company given the size of the borrowings balances, the number of borrowing agreements in place and the importance of the funding structure for continued growth.	Our procedures included, amongst others: • Obtaining confirmations from banks to confirm a selection of borrowings. • Reading the most up-to-date borrowing agreements with the financiers to develop an understanding of the terms associated with the facilities and the amount of facility available for drawdown. • Where debt is regarded as non-current, considering the Company's assessment whether there is an unconditional right to defer payment such that there were no repayments required within 12 months from the balance date. • Assessing the accounting treatment of capitalised borrowing costs arising from new arrangements and borrowing costs related to terminated facilities. • Evaluating the debt maturity profile and funding plan in light of our understanding of the debt agreements in place. • Performing tests of the design and operation of relevant controls over the treasury function including funding plan and Transurban Group board review and approval of debt agreements and financial institutions used.

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Loans to relates parties	
Note B15: Current: $402,543 thousand Non-Current: $8,907,760 thousand	
Key audit matter	**How our audit addressed the key audit matter**
Transurban Finance Company Pty Ltd's main activity is to on-lend the external borrowings to related parties within the Transurban Group. We considered this to be a key audit matter for the Company given the size of the related party loans receivable balance and the Company's reliance on the balances being recoverable in order to meet the obligations to financiers.	Our procedures included, amongst others: • Assessing the recoverability of loans to related parties and certain key assumptions used to determine the provision for expected credit loss. • Agreeing the outstanding balances to the financial records of related party counterparties as at 30 June 2021. • Assessing the adequacy of the disclosures in the financial report in respect of related party arrangements having regard to the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 6 to 20 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the remuneration report of Transurban Finance Company Pty Ltd for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Marcus Laithwaite
Partner

Melbourne
16 September 2021