

22 September 2014

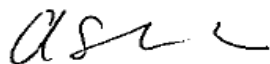
STANDARD & POOR'S UPDATE

Standard & Poor's Ratings Services re-affirmed the 'A-' issuer credit rating on Transurban Finance Co. Pty Ltd and revised its outlook to negative from stable on the business and its debt instruments. The Standard & Poor's statement is attached.

Transurban management remains committed to maintaining the Group's current credit worthiness.

There has been no change to Transurban's strategic objectives of growing distributions to its security holders and creating long term value through a combination of greater operational efficiencies and enhancement activities on its networks. The capital expenditure requirements of Transurban's development projects, including the CityLink-Tulla widening project in Melbourne, remain consistent with those objectives.

This change does not impact the Transurban Group's existing funding arrangements or distribution guidance.



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Classification

Public

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Research Update:

Outlook On Transurban Finance Co. Revised To Negative On Increased Execution Risks; 'A-' Ratings Affirmed

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Overview

- During an investors' day presentation on Sept. 18, 2014, Transurban, the largest toll road operator in Australia, with leading market positions in Sydney, Melbourne, and Brisbane, highlighted in detail its plan for the potential expansion of its CityLink road in Melbourne. The details included likely timing for an agreement with the Victorian government and the impact of tariffs during construction.
- We believe there is a greater probability of Transurban going ahead with this project, which would not only increase its already large expansion plans (and associated execution risks) over the next three years but also negatively affect earnings from its largest cash generating asset at a time when we were already expecting financial metrics to be weak for the rating.
- As a result, we are revising the outlook on Transurban to negative from stable, and affirming the ratings on the company at 'A-'.
- We would lower the ratings if Transurban were to go ahead with the project and fund it in a manner that would not restore its financial metrics in line with our expectations.

Rating Action

On Sept. 22, 2014, Standard & Poor's Ratings Services revised its outlook on Transurban Finance Co. Pty Ltd. (Transurban) to negative from stable, and affirmed the 'A-' issuer credit rating on the company and the issue credit ratings on its debt instruments.

Rationale

The outlook revision reflects our view that there is an increased likelihood of the Melbourne Citylink expansion project going ahead at a time when the company is in the midst of other large projects, and when the company has very limited buffers in its financial metrics. Excluding this potential expansion, we were forecasting that Transurban's financial metrics would be at the bottom end of our expectations for the rating because of Transurban's expected contribution for the A\$2.7 billion NorthConnex tunnel project in Sydney that is expected to start in early 2015 and in which Transurban will have a 50% stake. The expected weak metrics were also the result of the recent consolidation of Transurban's U.S. operations at a time when these assets are expected to generate very limited earnings for the group as traffic continues

to ramp up.

Transurban has indicated that current discussions with the Victorian government are at an advanced stage and could result in a transaction being executed by late 2014/early 2015. Further, the company has indicated that, as part of the overall package, Transurban would freeze toll rates for cars and light commercial vehicles during the two-year construction phase. This decision, combined with the likely traffic impact of construction works, could impact CityLink's EBITDA by up to 15% compared to our prior forecast, which incorporated the minimum toll escalation and some modest traffic growth.

Given the typically long time lag for large road projects between capital-related cash outflows and start of revenue generation, we expected leverage, as measured by the FFO-to-debt ratio, to be weak over the next two-to-three years but our forecast indicated that cash flow generation by Transurban's existing assets would remain solid, with free operating cash flow (FOCF), after capital contributions for the NorthConnex project, remaining comfortably positive. The additional funding for the Citylink expansion, which would be in excess of A\$850 million, could then put further pressure on our leverage measure as well as weaken FOCF.

While Transurban has historically supported large investments through the raising of equity, current management has shown a more aggressive growth strategy, as evidenced by the completion in recent years of the acquisition of Queensland Motorway and Cross City Tunnel, together with the large construction project for NorthConnex in Sydney, and now the likely Citylink expansion. This increased willingness to undertake multiple concurrent large acquisitions and projects not only comes with increased execution risks due to the complexity of building large tunnels, but also raises doubts in our mind about the company's continued willingness to support its current creditworthiness.

The 'A-' credit ratings reflects our view of Transurban's excellent business risk profile, given its leading market position in Australia's three largest cities and the stability and predictability of the traffic on its roads. We assess the company's financial risk profile as significant, given our expectation of the FFO-to-debt ratio, excluding the Citylink project, remaining at around 8% over the near term and FOCF remaining comfortably positive during that period. Our assessment of the company's financial risk profile takes into account the FOCF given that the large investment program over the next few years and our view that FFO to debt does not fully capture the fact that the debt related to its U.S. operations is long-dated and gradually amortising, thereby not requiring any refinancing until fully repaid.

Liquidity

We regard Transurban's liquidity as "adequate", based on our expectation that sources of liquidity over the next 12 months will exceed uses by more than 1.2x and sources will continue to exceed uses if EBITDA was to drop by 15%.

Principal liquidity sources:

- Cash and undrawn committed bank lines in excess of A\$800 million
- FFO in excess of A\$700 million over the next 12 months
- Proceeds from the recent €600 million issue

Principal liquidity uses:

- Capital expenditure (excluding the CityLink project) and NorthConnex capital contributions of about A\$600 million over the next 12 months
- Distributions of about A\$700 million

We note that Transurban has about A\$700 million maturing during fiscal 2015 but the company has historically refinanced upcoming maturities in a conservative manner.

Outlook

The negative outlook reflects our view that execution risks the company will face over the next two-to-three years could increase beyond our tolerance with the Citylink expansion project, and that this increased risk appetite might not be sufficiently compensated through stronger financial metrics.

Downside Scenario

We would consider lowering the rating if Transurban were to go ahead with the Citylink expansion project and fund it in a manner that would not restore its FFO-to-debt ratio above 9% in the next 12-to-24 months.

Upside Scenario

The outlook could be revised to stable if:

- Transurban goes ahead with the Citylink expansion project but we have confidence that the company will take appropriate steps to support its financial metrics in the near term and we expect FOCF (after capital contributions) to remain comfortably positive over the next two-to-three years.
- Transurban were to postpone the project and FFO to debt was to remain around 8% over the next two years and FOCF comfortably positive.

Related Criteria And Research

Related Criteria

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Methodology: Management And Governance Credit Factors For Corporate

*Research Update: Outlook On Transurban Finance Co. Revised To Negative On Increased Execution Risks; 'A-'
Ratings Affirmed*

Entities And Insurers, Nov. 13, 2012

Ratings List

Ratings Affirmed

Transurban Finance Co. Pty Ltd.

Corporate Credit Rating	A-/Negative/--	A-/Stable/--
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Ratings Affirmed; CreditWatch/Outlook Action

Transurban Finance Co. Pty Ltd.

Senior Secured	A-
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