

# Tax Transparency Report FY18



# About Transurban

## We keep cities moving

As one of the world's largest toll road operators, our business is about providing transport solutions that offer choice, reliability, safety, transparency and value in ways that assist in achieving our purpose—to strengthen communities through transport.

Listed on the Australian Securities Exchange in 1996, Transurban was established in Melbourne with the development of CityLink, one of the city's major transport corridors.

Today we have 17 toll roads in Sydney, Melbourne and Brisbane, Australia, as well as in the Greater Washington Area and Montreal in North America. We also have major projects underway that will offer improvements in the way motorists move around our cities.

We design our roads for the long term, ensuring they'll deliver real and lasting benefits to cities and their communities.

Every day more than 1.7 million trips are taken on our roads. We are persistent in looking for ways to make travel easier for everyone by using technology to create more efficient roads and a better customer experience.

# Message from our CFO

This year marks the twentieth anniversary of the opening of CityLink's western link and Transurban's commencement of operating toll roads.

Over the last two decades we have built and acquired urban motorways, bridges and tunnels and today develop, operate and maintain 17 roads across Australia and North America.

As a growing infrastructure business, we actively invest in the construction of new roads, and upgrading our existing roads. We are currently delivering eight major projects that address genuine community needs, create thousands of construction jobs, and generate economic, social and environmental benefits over the long term. These activities require large upfront capital.

The significant upfront costs associated with this investment activity can result in the generation of accounting and tax losses, which may offset profit earned on our other investments.

In all of our business activities, we work to operate as transparently as possible. By way of example, we voluntarily adopted the Tax Transparency Code immediately after its endorsement by the Federal Government in 2016.

We appreciate that corporate tax can be complicated, particularly with respect to infrastructure businesses, and are committed to producing an annual tax transparency report that is accessible, comprehensive and informative.

This report outlines our tax position for FY18, including how our investment activity influences that position. Also provided is an explanation of our corporate structure, which enables the payment of distributions to investors, taxable in their hands, while we are generating accounting and tax losses. We estimate that more than a billion dollars of tax has been paid by investors on returns made to date, made possible only by our corporate structure.

We monitor all developments in tax policy which may affect Transurban's tax positions. Recent integrity measures introduced in the Treasury Laws Amendment (*Making Sure Foreign Investors Pay Their Fair Share of Tax in Australia and Other Measures*) Act 2019 have application for businesses with stapled structures—such as Transurban's. Our business structures are compliant with the new laws.

The introduction of this new legislation will not impact Transurban's distributions or its tax paid. The new rules impact the rate of withholding for certain distributions paid to non-resident investors for distributions after 1 July 2019.

We understand the success of our business is intrinsically linked with the value we create for our customers, communities, government and business partners, investors and our people. This is why we are focused on the safe and efficient operation of our roads and delivering major projects that create new connections and unlock gridlock, all of which ultimately helps us to fulfil our company purpose—to strengthen communities through transport.

**Adam Watson CFO**

# Our corporate structure

Transurban has operated as a stapled structure since listing on the Australian Securities Exchange (**ASX**) in March 1996.

This means that investors in Transurban hold stapled securities that comprise one share in each of Transurban Holdings Limited (**THL**) and Transurban International Limited (**TIL**), and one unit in Transurban Holding Trust (**THT**).

THT is an Australian resident unit trust that qualifies as a managed investment trust. It operates as a flow-through trust for tax purposes.

THL is an Australian resident company, and the parent company of the Transurban Group for financial reporting purposes<sup>1</sup>.

TIL, an Australian resident company, is the holding company for Transurban's operations in North America.

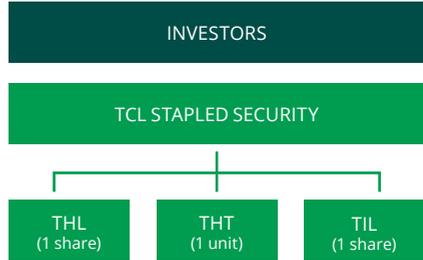
Our stapled structure enables us to pay distributions to our investors through THT, and dividends through THL and TIL.

Resident investors are subject to Australian tax on their distributions at their respective marginal tax rates. Non-resident investors are generally subject to withholding tax on their distributions.

More than 70 per cent of our investors are Australian superannuation fund managers and retail investors.

<sup>1</sup> Transurban prepares consolidated financial statements. THL is identified as the parent entity for financial reporting purposes and consolidated financial statements are prepared on this basis for accounting purposes. Transurban has a controlling, non 100% ownership interest in Airport Motorway Group and Transurban Queensland. As such, a non-controlling interest in these assets is recognised within equity for financial reporting purposes.

**Figure 1: Transurban's Triple Stapled Structure**



Stapled groups have contributed to Australia developing one of the world's most successful public private partnering models for infrastructure investment. Transurban's investors have valued clear and transparent outcomes for their investment and have invested through Transurban's stapled structure to fund nationally significant road infrastructure projects.

# Our approach to tax

Transurban continues to foster our long-standing and co-operative relationship with the Australian Taxation Office (ATO) and maintains a co-operative relationship with other revenue authorities in Australia and overseas.

In the context of tax risk management and tax governance, Transurban supports our Board's role in maintaining oversight and monitoring the effectiveness of the tax governance framework.

To achieve this, the Transurban Board, supported by the Audit & Risk Committee, oversees an internal control framework that provides guidance on how risks, including tax risks, are identified and managed within the business. To support our overall tax governance objectives Transurban continues to enhance our tax governance, tax risk management and Board reporting for tax, including periodic internal testing of tax controls<sup>2</sup>.

The existence and operation of corporate governance frameworks is one of the key areas of ATO focus under the Justified Trust project. Accordingly, Transurban is undertaking self-assessment activities with a view to be well positioned to meet the ATO's expectations in this regard.

Transurban's Board approved Tax Risk Management Policy is premised on the principle of accountability. As such, our approach is governed by Transurban's commitment to best practice corporate governance, transparency and accountability. This is essential for the long term performance and sustainability of the business, and to protect and enhance the interests of security holders and other stakeholders. Transurban recognises the inherent value for investors resulting from compliance with all tax laws by maximising operational efficiencies, reducing the risk of penalties, and maintaining a reputation as a compliant corporate taxpayer.

In this regard, the Transurban Group aims to adopt tax positions that comply not only with tax laws, but allow for efficient business structures, and maximise value for investors.

<sup>2</sup> The ATO in its Tax Risk Management and Governance Review Guide (the "Guide") requires organisations to establish tax risk management as a part of good corporate governance. This includes a formalised tax control framework, clearly defined roles and responsibilities, appropriate reporting to the Board and periodic internal controls testing. Organisations are required to retain sufficient evidence to demonstrate effective implementation of adequate processes in these key areas.

# Our tax position explained

## Our capital-intensive operations

Transurban owns and operates its toll roads through contractual agreements entered into with government authorities (known as “concessions”) under which it is entitled to collect toll revenue in return for designing, constructing, operating and maintaining toll roads in accordance with strict government requirements. At the end of concession periods, toll roads revert to the relevant government authorities for no further consideration.

Transurban’s business is capital intensive and requires significant upfront and ongoing capital investment to develop, operate and maintain roads that are critical to Australia’s transport needs. This upfront investment generally leads to accounting and tax losses in the early years post development.

## Our stapled structure

A company is generally precluded from paying dividends where it is generating accounting losses. Transurban is structured as a stapled group comprising corporate and trust entities to allow distributions to be paid in the early years of investment to investors from the trust when accounting and tax losses are being generated. The investors are subject to tax on the distributions received. In this way, the ATO collects tax earlier than would be the case under a company structure.

By way of example, if Transurban was structured as a single corporate entity we estimate that the first dividend we would have been able to provide would have been in 2009, 13 years after listing on the ASX. The restriction on paying dividends would have significantly constrained Transurban’s ability to raise capital from equity markets to fund toll road investments.

A stapled structure is not unique to Transurban, but common practice across infrastructure investments with significant capital intensive upfront costs. It has been fundamental in helping stimulate private investment in infrastructure. In Transurban’s case it has allowed the development of nationally significant road infrastructure that is critical in meeting transportation requirements, while relieving the financing burden and associated risks for governments.

# Our income tax position for FY18

## Transurban Group of wholly owned entities

Under Australian tax law, Transurban's income is subject to tax at the investor level, through trust distributions, and our Australian resident corporate entities are taxed at a 30 per cent tax rate on their taxable income.

THT, as a flow through trust for tax purposes, does not pay income tax itself. Resident investors pay tax on trust distributions received based on their respective marginal tax rates, whereas non-resident investors are subject to withholding tax. To assist resident investors in complying with their tax obligations, Transurban publishes annually a Tax Statement Guide advising our investors on how distributions should be disclosed in their tax returns. The tax payable by resident investors on trust distributions is the responsibility of investors and governed by their relationship with the ATO.

THL and TIL are both Australian resident entities that pay corporate tax at 30 per cent on their taxable income. As head companies of tax consolidated groups, THL and TIL along with their respective wholly owned Australian entities have implemented the tax consolidation legislation.

THL and TIL lodge a single income tax return on behalf of their respective tax consolidated groups.

TIL's operations in FY18 were solely based in the US and Canada.

TIL is funded by a mix of debt and equity and has largely invested into the US via equity contributions. Dividends received from wholly owned US entities are not assessable under Australian income tax law. Interest income is treated as assessable income and reduced by available debt deductions.

THL operates and maintains Australian roads. The income tax position for FY18 reflects the depreciation of our substantial infrastructure investments and the interest costs on the funds borrowed to make these investments. A reconciliation of accounting profit to income tax payable is included in Figure 2.

**Figure 2: FY18 Income Tax Transparency Disclosure—  
THL Reconciliation to Total Tax Payable**

Reconciliation of Accounting Profit to Tax	2018 \$M
Revenue <sup>1</sup>	3,298
Expenses	(1,649)
<b>EBITDA</b> Earnings before depreciation, amortisation, net finance costs, equity accounted investments and income taxes	<b>1,649</b>
Total depreciation and amortisation <sup>2</sup>	(671)
Net finance costs <sup>3</sup>	(722)
Share of net profits of equity accounted investements <sup>4</sup>	33
<b>Profit before income tax</b>	<b>289</b>

- [Note B5: Revenue](#), Section B: Notes to the Group financial statements, 2018 Transurban Annual Report.
- [Note B16: Intangible assets](#), Section B: Notes to the Group financial statements, 2018 Transurban Annual Report.
- [Note B13: Net finance costs](#), Section B: Notes to the Group financial statements, 2018 Transurban Annual Report.
- [Note B23: Equity accounted investments](#), Section B: Notes to the Group financial statements, 2018 Transurban Annual Report.
- Reversal of accounting revaluation of concession notes.
- ATO publishes our tax information—each year the ATO publically discloses certain details from our tax return—including total income, taxable income and tax payable.
- Franked credits received from Transurban's 50 per cent stake in Interlink Roads, the entity that operates the M5 South West Motorway in Sydney.
- Effective tax rate is nil.

Reconciliation of Accounting Profit to Tax	2018 \$M
Accounting Profit/(Loss) before income tax on Transurban Group's FY18 financial statements	289
Adjustments for entities not comprising members of the THL Tax consolidated group	(369)
Tax adjustments:	
Accounting depreciation and IFRIC12	222
Foreign exchange movement	4
Concession fees <sup>5</sup>	262
Provisions and accruals	16
Tax Depreciation	(155)
Other	(154)
Franking credits and eligible research and development expenditure included to calculate net taxable income	35
<b>Tax losses utilised</b>	<b>(37)</b>
<b>Net Taxable Income<sup>6</sup></b>	<b>113</b>
30% tax at Taxable Income	34
Franking Credits received <sup>7</sup>	(34)
R&D Credits applied	-
<b>Tax Payable<sup>8</sup></b>	<b>0</b>

### FY18 Australian tax contribution:

- \$22 million employment-related taxes and levies
- \$54 million net GST contribution

# Our income tax position for FY18

## International dealings with related parties in FY18

We operate three assets across the North America region: the 95 and 495 Express Lanes in Greater Washington (USA), and the A25 in Montreal (Canada). Certain of our Australian entities engaged in international related party dealings during FY18 to support the effective operation of these assets. Those international related party dealings broadly comprised the following:

- *Funding*—each of THL, TIL<sup>1</sup> and THT were involved in the provision of funding support to our three assets across the North America region. The two foremost international related party dealings in this regard were:
  - (a) The maintenance of an interest-bearing loan to a related party resident in the US. The relevant funds were advanced to facilitate the operation and development of our two assets in the USA; and
  - (b) The provision of an interest-bearing loan to a related party resident in Canada to facilitate our 100% acquisition of the A25 asset in June 2018.
- *Management services*—THL<sup>2</sup> was involved in the provision of management services to a related party resident in the USA. These management services supported the day-to-day operations of all our entities situated in the USA<sup>3</sup>.

1 THL and TIL in their capacities as Head Entities of their respective income tax consolidated groups.

2 THL in its capacity as Head Entity of its income tax consolidated group.

3 During FY18, THL also received support services from the same related party that is resident in the USA. The relevant services supported our acquisition of the A25 asset in June 2018.

Consistent with the requirements of domestic and international tax law, all international related party dealings entered into have been priced according to the arm's length principle. The arm's length principle uses the behaviour of independent parties as a benchmark to determine the pricing of goods and services between related parties in international dealings. It provides a guide on how income and expenses are allocated in international related party dealings. In practice, this involves a comparison of what an entity has done with what an independent party would have done in the same or similar circumstances.

### Further information

Visit our website for more information about our tax position, tax guides and financial statements: [transurban.com/distributions-and-tax](https://transurban.com/distributions-and-tax)

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