Tax Transparency Report FY17

About Transurban

We keep cities moving

As cities in Australia and around the world grow, we give them room to move.

By partnering with government, we provide effective toll roads that help solve transport challenges. Giving people back valuable time they would otherwise spend in traffic, while easing demand on our national budget.

In business since 1996, we have operations in Australia, the U.S. and Canada.

Message from our CFO

For 20 years, we have worked with governments to build and upgrade urban motorways, tunnels and bridges. Our road projects address genuine community needs, create thousands of jobs, and generate economic, social and environmental benefits over the long term.

We recognise that our success depends on understanding the needs of our stakeholders and working collaboratively towards shared goals. This is why, in each of the cities in which we operate, we work closely with our government partners, stakeholders and the local community to ensure our roads deliver safe, efficient and reliable travel for motorists.

In all of our business activities, we work to operate as transparently as possible. 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 we are committed to producing an annual tax transparency report that is accessible, comprehensive and informative.

This report outlines our tax position for FY17, 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.

Transurban acknowledges the importance of the recent tax review of stapled structures undertaken by the Treasury and actively participated in the consultation process. The Treasury has announced a package of policy measures that will impact stapled groups and their non-resident investors. The outcome will not impact Transurban's distributions or its tax paid.

As a growing infrastructure business, we actively invest in the construction of new roads, upgrading our existing roads, and acquiring other roads when it makes sense to do so. These activities require large upfront capital.

Since inception, we have invested more than $35 billion in the 13 toll roads that we now operate across the eastern seaboard of Australia, and are currently working to deliver more than $9 billion of new projects.

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.

As a business, we exist ultimately to serve the community in which we operate through the provision of effective transport solutions that support the growth and wellbeing of our cities.

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.

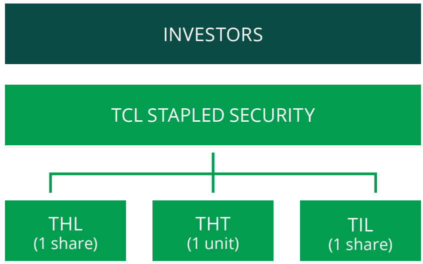
THL is an Australian resident company, and the parent company of the Transurban Group for financial reporting purposes[1].

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.

More than 70 per cent of our investors are Australian superannuation fund managers and retail investors. Investors are subject to Australian tax on their distributions at their respective marginal rates.

Figure 1: Transurban's Triple Stapled Structure



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

1 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 M1 Eastern Distributor and Transurban Queensland. As such, a non-controlling interest in these assets is recognised within equity for financial reporting purposes.

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 all risks, including tax risks, are identified and managed within the business. To support our overall tax governance objectives Transurban continues to enhance and formalise our tax governance, tax risk management and Board reporting for Tax, including periodic internal testing of tax controls[2].

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 with tax laws, allow for efficient business structures, and maximise value for investors.

2 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 roads that are critical to Australia's transport needs. Figure 2 depicts our pipeline of $9 billion committed projects.

The large upfront investment results in accounting and tax losses in the early years of an investment. From an accounting perspective, the cost of construction is capitalised as an intangible asset which is amortised over the life of the concession. These costs are also depreciated for tax purposes.

Our stapled structure

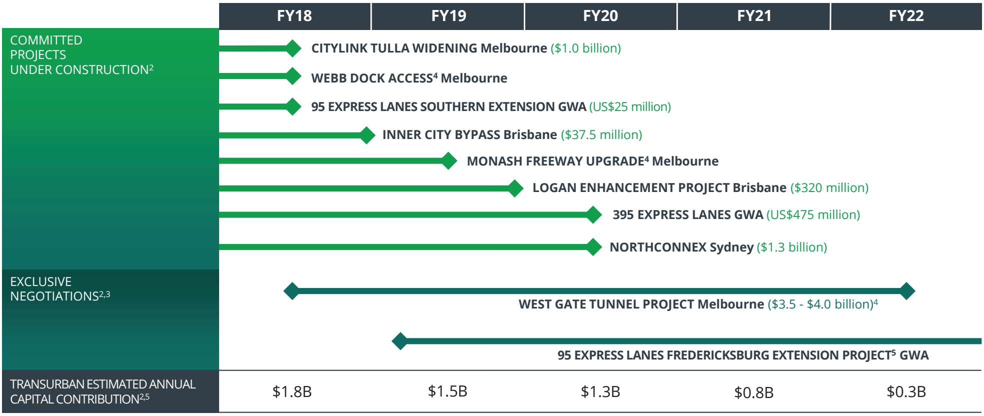
A company is generally precluded from paying dividends where it is generating accounting losses. Transurban is structured as a stapled group comprising corporate and trust entities to allow distributions to be made in the early years of investment to investors from the trust. The investors are subject to tax on the distributions. 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 on 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.

Figure 2: Transurban's committed project pipeline

$9 billion committed pipeline[1]



1. Projects committed or in exclusive negotiations. Estimated spend reflects 100% of the total project cost, not Transurban's share.

2. Estimated spend reflects Transurban's proportion of the total project cost, net of government contribution.

3. Final funding requirement subject to confirmation of project scope and/or competitive procurement process and extent of government funding.

4. West Gate Tunnel Project (formerly Western Distributor Project) cost to Transurban of $3.5–$4.0 billion (inclusive of Webb Dock Access and Monash Freeway Upgrade).

5. The 95 Express Lanes Fredericksburg Extension Project has not been included in Transurban's estimated annual capital contribution as it is still in early negotiations. Project completion expected FY23.

Our income tax position for FY17

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. Investors pay tax on trust distributions received based on their respective tax rates. Transurban publishes annually a Tax Statement Guide advising our investors on how distributions should be disclosed in their tax returns. The tax payable by investors on trust distributions is the responsibility of the 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.

The head companies of the tax consolidated groups, being THL and TIL, lodge a single income tax return on behalf of their respective tax consolidated group.

TIL's operations in FY17 were wholly based in the US. The corporate tax rate applicable in the US was 35 per cent (US Federal corporate tax rate reduced from 35 to 21 per cent for tax years beginning after 31 Dec 2017).

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 FY17 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 3.

Figure 3: FY17 Income Tax Transparency Disclosure—THL Reconciliation to Total Tax Payable

Reconciliation of Accounting Profit to Tax	2017 $M
Revenue[1]	2,732
Expenses	(1,206)
EBITDA Earnings before depreciation, amortisation, net finance costs, equity accounted investments and income taxes	1,526
Total depreciation and amortisation[2]	(628)
Net finance costs[3]	(749)
Share of net profits of equity accounted investements[4]	25
Profit before income tax	**174**

1 Note B5: Revenue, Section B: Notes to the Group financial statements, 2017 Transurban Annual Report.

2 Note B16: Intangible assets, Section B: Notes to the Group financial statements, 2017 Transurban Annual Report.

3 Note B13: Net finance costs, Section B: Notes to the Group financial statements, 2017 Transurban Annual Report.

4 Note B22: Equity accounted investments, Section B: Notes to the Group financial statements, 2017 Transurban Annual Report.

5 Reversal of accounting revaluation of concession notes.

6 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.

7 Franked credits received from Transurban's 50 per cent stake in Interlink Roads, the consortium that operates the M5 South West Motorway in Sydney.

8 Effective tax rate is nil.

Reconciliation of Accounting Profit to Tax	2017 $M
Accounting Profit/(Loss) before income tax on Transurban Group's FY17 financial statements	174
Adjustments for entities not comprising members of the THL Tax consolidated group	(10)
Tax adjustments:	
Accounting depreciation and IFRIC12	238
Foreign exchange movement	(3)
Concession fees[5]	(109)
Provisions and accruals	17
Other	13
Tax Depreciation	(113)
Franking credits and eligible research and development expenditure included to calculate net taxable income	27
Tax losses utilised	(149)
Net Taxable Income[6]	85
30% tax at Taxable Income	26
Franking Credits received[7]	(26)
R&D Credits applied	–
Tax Payable[8]	**–**

FY17 Austalian tax contribution:

- $25 million employment-related taxes and levies
- $73 million net GST contribution

Our income tax position for FY17

International dealings with related parties in FY17

We operate two roads in the Greater Washington area of USA: the 95 and 495 Express Lanes. To effectively operate these two roads, two companies within our corporate structure—Transurban International Holdings Pty Ltd (TIHL) and Transurban Limited (TL)—engaged in cross-border transactions with related parties.

Specifically:

- TIHL, a member of the income tax consolidated group of which TIL is Head Company, maintained an interest-bearing loan receivable from a related party resident in the USA. The relevant funds, sourced through external debt raising, were advanced to facilitate the operation and development of our two roads in the USA; and
- TL, a member of the income tax consolidated group of which THL is Head Company, provided management services to a related party resident in the USA. These management services support the everyday operations of all Transurban entities resident in the USA.

Consistent with the requirements of domestic and international tax law, both of these transactions have been priced using 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 dealings between related parties. In practice, this involves a comparison of what a business has done with what an independent party would have done in the same or similar circumstances.

Transurban does not use tax havens to locate its entities.

Transurban does not shift profits to low-tax jurisdictions.

Further information

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

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