Tax Transparency Report FY16

About Transurban

We manage and develop urban toll road networks in Australia and the United States of America.

We aim to be the partner of choice for governments, communities and investors in providing effective urban road infrastructure.

We have been in business since 1996 and are a top 20 company listed on the Australian Securities Exchange.

Today, we operate 13 motorways across Brisbane, Sydney and Melbourne in Australia and two in the Greater Washington Area in the United States.

In FY16 we had:

- Five million customers
- 5.7 billion kilometres travelled on our roads
- Eight road development projects under way, which will add 448 lane kilometres to our networks
- 100,000 investors, 70% of which are Australian residents
- $900 million in investor distributions
- $309 million in road operating costs
- $282 million in construction costs
- 2,000 employees and contractors
- 37% workforce growth

Message from our CFO

When the Australian Government launched the voluntary Tax Transparency Code in May 2016 and encouraged large companies to disclose information about their tax affairs, we readily agreed and adopted the code. We know that corporate tax can be complicated and are committed to producing an annual Tax Transparency Report that is readily accessible and easy to understand.

As an infrastructure business, we invest heavily in building new roads, upgrading our existing roads and buying other roads when it makes sense to do so. These investments require large upfront costs, which, in turn, means we generate accounting and tax losses in the early years of an investment.

This report outlines our tax contributions and explains how these investments impact our corporate tax outcome. It also provides details on our corporate structure, which enables the payment of distributions to investors while we are generating accounting and tax losses. **The distributions are subject to tax in the hands of investors.**

Tax is paid by investors on returns made to date.

We have a long-standing and co-operative relationship with the Australian Taxation Office (**ATO**), and the ATO has categorised our main corporate entity, Transurban Holdings Limited, as a "lower consequence taxpayer" for both Income Tax and Goods and Services Tax. In line with the ATO's governance expectations, Transurban's Board has approved a tax risk management policy that is based on the principle of accountability.

As a business we exist to serve the communities where we operate. We proudly work with government and our partners to provide road networks that increase the productivity of cities by billions of dollars every year through lower congestion, improved safety and travel time reliability, and more sustainable transport. Everything we do, large and small, is underpinned by our vision "to strengthen communities through transport" and our corporate values of integrity, collaboration, accountability, ingenuity and respect.

Adam Watson CFO

Our tax position explained

Transurban's business is capital intensive and requires long-term investment. Typically, we bear significant upfront costs to develop road networks, which are critical to meeting Australia's transport needs.

The depreciation of the initial capital investment and the associated debt funding required leads to accounting and tax losses being generated in the early years. In such circumstances 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 to investors would have been in 2009, 13 years after listing on the ASX. The restriction on paying dividends would have significantly limited Transurban's ability to raise capital on equity markets to fund 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 networks that are critical in meeting transportation requirements, while relieving the financing burden on governments.

Investing in infrastructure networks

Transurban owns and operates its toll roads through contractual agreements—known as "concessions"—with government authorites.

Through these concessions, Transurban is entitled to collect toll revenues in return for designing, constructing, operating and maintaining the toll road in accordance with strict government requirements. When the concession period ends, the road reverts to the relevant government authorities for no consideration.

During the concession period, we also undertake major projects that improve our roads by adding more lanes or technologies that improve road safety and relieve congestion, as well as grow our business.

These activities require large amounts of upfront capital.

Approximately $31 billion since 1999 has been invested to develop our roads.

The significant investment associated with new projects can, for a period of time, offset the profits derived from the more mature projects.

In other words, Transurban bears the upfront costs in order to generate a return on its investment over time. Given the size of the upfront investment, it takes a significant period of time for the roads to mature and provide positive returns. This results in accounting and tax losses being generated.

Network investment

$9 billion project pipeline

$31 billion* total investment in our roads

1999	CityLink completed (Melbourne)
2005	Hills M2 acquired (Sydney) Westlink M7 opened (Sydney)
2007	Tulla-Calder Interchange Upgrade (Melbourne) Eastern Distributor, M5 and M4 acquired (Sydney)
2010	M1 CityLink Upgrade (Melbourne) Lane Cove Tunnel acquired
2012	495 Express Lanes completed (USA) Hills M2 upgrade (Sydney)
2014	Cross City Tunnel acquired Gateway Motorway, Logan Motorway, CLEM7, Go Between Bridge, Legacy Way acquired (Brisbane) M5 South West Motorway upgrade (Sydney) 95 Express Lanes completed (USA)
2015	NorthConnex construction commenced CityLink Tulla Widening Project commenced
2016	AirportLink M7 acquired (Brisbane)
2017	Logan Motorway Enhancement Project commenced

* Total construction costs since inception. Includes projects on which we have reached financial close but are yet to reach practical completion.

Our corporate structure

Transurban has operated as a stapled structure since listing on the 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, an Australian resident unit trust, operates as a flow-through trust for tax purposes that qualifies as a managed investment trust.

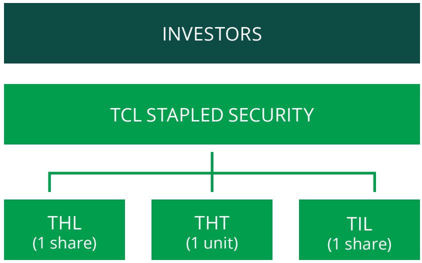
THL, an Australian resident company, is the parent company of the Transurban Group for financial reporting purposes.*

TIL, an Australian resident company, is the holding company for Transurban's US operations.

Our stapled structure enables us to pay distributions to our investors through THT.

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.

Road infrastructure investment through Transurban provides a direct benefit to business and households, creates thousands of jobs annually, and a significant boost to national productivity.

* 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 and as such recognises a non-controlling interest in these assets within equity.

Our income tax position for FY16

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 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 based on their respective tax rates. Transurban publishes annually a Tax 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 are wholly based in the US. The corporate tax rate applicable in the US is 35 per cent.

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 FY16 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.

Our income tax position for FY16

Figure 2: FY16 Income Tax Transparency Disclosure—THL Reconciliation to Total Tax Payable

Reconciliation of Accounting Profit to Tax	2016 $M
Revenue[1]	2,210
Expenses	(962)
EBITDA Earnings before depreciation, amortisation, net finance costs, equity accounted investments and income taxes	1,248
Total depreciation and amortisation[2]	(584)
Net finance costs[3]	(728)
Share of net profits of equity accounted investements[4]	17
Loss before income tax	**(47)**

Reconciliation of Accounting Profit to Tax	2016 $M
Accounting Profit/(Loss) before income tax on Transurban Group's FY16 financial statements[5]	(47)
Adjustments for entities not comprising members of the THL Tax consolidated group	155
Tax adjustments:	
Accounting depreciation and IFRIC12	236
Foreign exchange movement[6]	(143)
Concession fees	6
Provisions and accruals	11
Other	(1)
Tax Depreciation	(77)
Franking credits and eligible research and development expenditure included to calculate net taxable income	7
Tax losses utilised	(122)
Net Taxable Income[7]	25
30% tax at Taxable Income	7
Franking Credits received[8]	(6)
R&D Credits applied[9]	(1)
Tax Payable[10]	**-**

1 Note B5: Revenue, Section B: Notes to the Group financial statements, 2016 Transurban Annual Report.

2 Note B16: Intangible assets, Section B: Notes to the Group financial statements, 2016 Transurban Annual Report.

3 Note B13: Net finance costs, Section B: Notes to the Group financial statements, 2016 Transurban Annual Report.

4 Note B22: Equity accounted investments, Section B: Notes to the Group financial statements, 2016 Transurban Annual Report.

5 Functional costs (including road operating costs, construction costs), amortisation, interest and finance charges in relation to external borrowings contribute to the accounting loss before income tax. (Section A: Group financial statements 2016 Transurban Annual Report).

6 This tax adjustment relates to the repayment of USD denominated working capital and syndicated facilities.

7 ATO publishes our tax information—each year the ATO publically discloses certain details from our tax return, which includes THL's total income, taxable income and tax payable.

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

9 Research and development credits pertaining to technology projects.

10 Effective tax rate is nil.

FY16 Austalian tax contribution:

- $17 million employment-related taxes and levies
- $105 million net GST contribution
- $108 million stamp duty

International dealings with related parties in FY16

We operate two roads in the USA, the 95 and 495 Express Lanes in the Greater Washington Area. Due to these operations, in FY16 two of the major entities within our company structure—TIL and Transurban Limited (**TL**)—were involved in intercompany transactions, specifically:

- TIL continued to have a related party loan to finance the operations and development of our roads in the USA. The funding was obtained in US dollars from third-party financial institutions.
- TL—an operational entity within the THL tax consolidated group—provides management services to Transurban's entities based in the USA for a fee.

These commercial and financial arrangements reflect the manner in which the related-party transactions occurred, and were priced in line with the "arm's length" principle.*

Transurban does not use tax havens to locate its entities.

Transurban does not shift profits to low-tax jurisdictions.

* The arm's length principle uses the behaviour of independent parties as a guide or benchmark to determine the pricing of goods and services and how income and expenses are allocated in international dealings between related parties. It involves comparing what a business has done and 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, financial statements and our submission to the Senate Economics Reference Committee's inquiry into corporate tax avoidance and minimisation: transurban.com/distributions-and-tax

Transurban

Australia

Melbourne (Head office)

Tower One, Collins Square
Level 23, 727 Collins Street
Melbourne, Victoria 3000

Sydney

Level 9, 1 Chifley Square
Sydney, New South Wales 2000

Brisbane

7 Brandl Street
Eight Mile Plains, Queensland 4113

Mailing address

Locked Bag 28
South Melbourne, Victoria 3205

Phone +61 3 8656 8900
Fax +61 3 8656 8585

United States of America

Greater Washington Area

6440 General Green Way
Alexandria VA 22312, USA

Phone +1 571 419 6100

Transurban (USA) Inc.

Suite T500, 7900 Westpark Drive
Tysons, VA 22102

Phone +1 571 419 6100

Email corporate@transurban.com

transurban.com

TUCC106