



Transurban

# REPORT

## FY19 TAX TRANSPARENCY

—RELEASED AUGUST 2020—

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LED lighting feature at the St Peters Interchange delivered as part of the WestConnex M8 project in Sydney in July 2020

## **Reporting suite—all available at [transurban.com/investor-centre](https://transurban.com/investor-centre)**

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### **FY20 Corporate Report**

The holistic performance of Transurban in FY20 including our Financial Statements.

### **FY20 Results Presentation**

Management presentation of financial and non-financial results including non-statutory analysis.

### **Corporate Governance Statement**

Corporate Governance Statement made in accordance with the ASX Council's Corporate Governance Principles and Recommendations (4th Edition).

### **FY20 Sustainability Supplement**

Supplement to the Corporate Report including information related to our assessment and management of climate-related impacts as well as a report on our progress against the UN Sustainable Development Goals.

### **Tax Transparency Report—this report**

Overview of our corporate structure, approach to tax and tax position for FY19—available late August 2020.

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**20**

operating  
assets

**7**

major projects  
underway

**8.8M**

customers and  
road users globally

**9K+**

total workforce

**1996**

listed on the  
Australian Securities  
Exchange

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# WE KEEP CITIES MOVING

As one of the world's largest toll-road developers and operators, our business is to keep cities moving and get people where they want to go as quickly and safely as possible.

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**W**e have been doing this since 1999 when we opened CityLink in Melbourne, Australia, and today we operate 20 toll roads in Australia, the United States and Canada. We have 5.5 million customers in Australia, while in North America over 3.3 million drivers choose to use our roads for faster, safer and more reliable trips.

Over the next five years, we have seven major projects scheduled for completion, which will provide vital alternatives to busy and often congested city roads and remove truck traffic from local neighbourhoods.

Our purpose - to strengthen communities through transport -

underpins all that we do. From our traffic control room operators who monitor our roads 24/7 to our traffic planners who are forecasting where congestion hot spots could be in a decade's time, our team is focused on making travel easier now and in the future.

We also continually challenge ourselves in the way we respond to social and environmental issues and invest in both to create social inclusion and manage our environmental impacts. Success for us means we achieve our purpose and create real and lasting benefits for all our stakeholders.

# Message from our CFO

**T**ransurban's purpose is to strengthen communities through transport and to achieve this we must deliver value for all our stakeholders groups from the customers who choose to travel on our roads to the communities alongside our assets and the security holders who invest in us.

One of the most visible demonstrations of how we go about achieving our purpose is through our construction projects. These are critical projects that improve the liveability and productivity of cities by providing transport options and connections that offer time saving and reliability.

In FY19, we opened two major projects in Brisbane, with a further three projects – in Virginia, US, Sydney and Brisbane - completed in FY20.

We are currently delivering a \$19 billion pipeline of infrastructure projects in our Australian and North American markets with seven projects under way.

In addition to generating thousands of construction jobs, these projects address genuine community needs and will generate economic, social and environmental benefits over the long term.

Like all of the infrastructure projects we have delivered over the past 20 years, our construction activities require large investments of 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.

This report outlines our tax position for FY19, including how our investment activity influenced that position.

We also provide an explanation of our corporate structure, which enables the payment of distributions to investors, taxable in their hands, even 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.

This is our fourth Tax Transparency Report since the Australian Government endorsed the voluntary Tax Transparency Code in May 2016.

We know that corporate tax can be complicated and that is why we believe it is imperative that our annual Tax Transparency Report is as easy to understand and informative as possible.

Our approach has also governed our commitment to best-practice corporate governance, transparency and accountability. This is essential for the long-term performance and sustainability of the business and to ensure we continue to deliver value for all our stakeholder groups.



**Adam Watson**

Transurban CFO  
August, 2020

# 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 an attribution 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>.

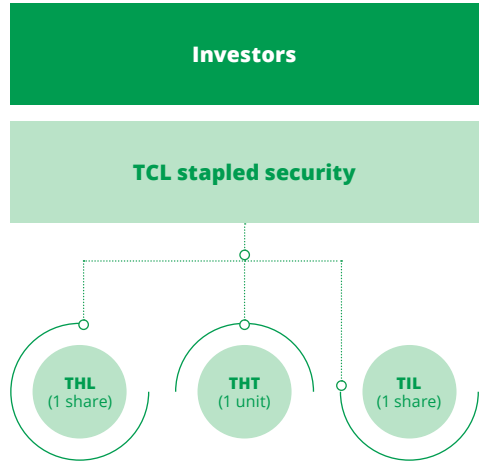
TIL, an Australian resident company, is the holding company for Transurban's operations in North America.

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.

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

**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 transparent outcomes for their investment and have invested through Transurban's stapled structure to fund nationally significant road infrastructure projects.

<sup>1</sup> Transurban prepares consolidated financial statements. THL is identified as the parent and controlling entity of the stapled structure for financial reporting purposes and consolidated financial statements are prepared on this basis for accounting purposes. The consolidated financial statements of THL include the other members of the stapled group being TIL and its controlled entities and Transurban Infrastructure Management Limited (TIML) as the responsible entity of THT and its controlled entities. Transurban also has a controlling, non 100% ownership interest in Airport Motorway Group and Transurban Queensland. The non-controlling interest in each of TIL, THT, Airport Motorway Group and Transurban Queensland is presented 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 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 not only comply 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 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 by the company. 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 that is generating tax losses.

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 pay 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.

## **Transurban Group of wholly owned entities**

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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 each lodge a single income tax return on behalf of their respective tax consolidated groups.

TIL's operations in FY19 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 FY19 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 FY19

**FIGURE 2: FY19 INCOME TAX TRANSPARENCY DISCLOSURE—THL RECONCILIATION TO TOTAL TAX PAYABLE**

| Reconciliation of Accounting Profit to Tax   | 2019<br>\$M | Reconciliation of Accounting Profit to Tax  | 2019<br>\$M |
|--|-------------|---|-------------|
| Revenue <sup>1</sup>   | 4,166       | Accounting Profit/(Loss) before income tax on Transurban Group's FY19 financial statements                  | 30          |
| Expenses   | (2,170)     | Adjustments for entities not comprising members of the THL Tax consolidated group                           | 33          |
| <b>EBITDA</b> Earnings before depreciation, amortisation, net finance costs, equity accounted investments and income taxes | 1,996       | <b>Tax adjustments:</b>   |             |
| Total depreciation and amortisation <sup>2</sup>   | (995)       | Accounting depreciation and IFRIC12   | 295         |
| Net finance costs <sup>3</sup>   | (865)       | Foreign exchange movement   | 1           |
| Share of net profits of equity accounted investments <sup>4</sup>  | (334)       | Concession fees   | (34)        |
| Gain on revaluation of equity accounted investment <sup>5</sup>  | 228         | Provisions and accruals   | 30          |
| <b>Profit before income tax</b>  | <b>30</b>   | Tax Depreciation  | (239)       |
|  |             | Other   | (7)         |
|  |             | Franking credits and eligible research and development expenditure included to calculate net taxable income | 50          |
|  |             | <b>Tax losses utilised</b>  | <b>0</b>    |
|  |             | <b>Net Taxable Income<sup>6</sup></b>   | <b>159</b>  |
|  |             | 30% tax at Taxable Income   | 48          |
|  |             | Franking Credits received <sup>7</sup>  | (46)        |
|  |             | R&D Credits applied   | -           |
|  |             | Foreign Income Tax Offsets applied  | (2)         |
|  |             | <b>Tax Payable<sup>8</sup></b>  | <b>0</b>    |

### FY19 AUSTRALIAN TAX CONTRIBUTION:

**\$28 million**

employment-related taxes and levies



**\$150 million**

Total GST payable reported

**\$162 million**

Total GST credits reported<sup>9</sup>

<sup>1</sup> Note B5: Revenue, Section B: Notes to the Group financial statements, 2019 Transurban Corporate Report.

<sup>2</sup> Note B17: Intangible assets, Section B: Notes to the Group financial statements, 2019 Transurban Corporate Report.

<sup>3</sup> Note B13: Net finance costs, Section B: Notes to the Group financial statements, 2019 Transurban Corporate Report.

<sup>4</sup> Note B25: Equity accounted investments, Section B: Notes to the Group financial statements, 2019 Transurban Corporate Report.

<sup>5</sup> Note B24: Business combinations, Section B: Notes to the Group financial statements, 2019 Transurban Corporate Report.

<sup>6</sup> ATO publishes our tax information—each year the ATO publicly discloses certain details from our tax return—including total income, taxable income and tax payable.

<sup>7</sup> Franking credits received from Transurban's stake in Interlink Roads, the entity that operates the M5 South West Motorway in Sydney.

<sup>8</sup> Effective tax rate is nil.

<sup>9</sup> More than half of the Total GST credits reported relate to the West Gate Tunnel Project.

## International dealings with related parties in FY19

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 FY19 to support the effective operation of these assets. Those international related party dealings broadly comprised the following:

- *Funding and related services*—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 largest 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.

- *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>.

Consistent with the requirements of domestic and international tax laws, the above 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)

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

<sup>2</sup> THL in its capacity as Head Entity of its income tax consolidated group.

<sup>3</sup> During FY19, 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.

## Australia

### Melbourne (Head office)

Tower Five, Collins Square  
Level 31, 727 Collins Street  
Melbourne, Victoria 3000

### Sydney

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

### Brisbane

Level 39, 300 George St  
Brisbane Qld 4000

### Mailing address

Locked Bag 28  
South Melbourne, Victoria 3205  
Phone +61 3 8656 8900  
Fax +61 3 8656 8585

## United States of America

### Transurban (USA) Inc.

Suite T500, 7900 Westpark Drive  
Tysons, VA 22102  
Phone +1 571 419 6100  
Email [corporate@transurban.com](mailto:corporate@transurban.com)  
[transurban.com](http://transurban.com)