

# MQA Explanatory Memorandum

9 April 2018

Macquarie Atlas Roads Limited (ACN 141 075 201)

Macquarie Atlas Roads International Limited (Registration no. 43828)

None of the entities noted in this document is an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of Macquarie Bank Limited (ABN 46 008 583 542) (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

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# Disclaimer and Important Notices

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## Important notices

Capitalised terms used in this document have the meaning given to them in the Glossary.

This Explanatory Memorandum is issued by Macquarie Atlas Roads Limited (ACN 141 075 201) (“**MARL**”) and Macquarie Atlas Roads International Limited (Registration No. 43828) (“**MARIL**”) (together, “**Macquarie Atlas Roads**” or “**MQA**”). Macquarie Fund Advisers Pty Limited (ACN 127 735 960) (AFSL 318 123) (“**MFA**”) is the manager/adviser of MARL and MARIL.

MFA is a wholly owned subsidiary of Macquarie Group Limited (ACN 122 169 279) (“**MGL**”). None of the entities noted in this document is an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Cth). The obligations of these entities do not represent deposits or other liabilities of Macquarie Bank Limited (ABN 46 008 583 542) (“**MBL**”). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

This Explanatory Memorandum and the Notices of Meeting and proxy forms are important and require your immediate attention. You should read these documents carefully and in their entirety before deciding how to vote on the resolutions to be considered at the Meetings.

## Not an offer document

This Explanatory Memorandum is not a prospectus or product disclosure document under the Corporations Act 2001 (Cth) (“**Corporations Act**”), and has not been lodged with the Australian Securities and Investments Commission (“**ASIC**”) or any other regulatory body under Australian law or under any other law. It has been prepared for information purposes only and is not itself an invitation or offer of securities for subscription, purchase or sale in any jurisdiction. This Explanatory Memorandum does not constitute financial product advice and does not and will not form any part of any contract for the acquisition of MQA stapled securities.

## No investment advice

This Explanatory Memorandum does not purport to contain all the information that a prospective investor may require in evaluating a possible investment in MQA nor does it contain all the information which would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act.

This Explanatory Memorandum has been prepared without taking account of any person’s investment objectives, financial situation or particular needs and prospective investors should conduct their own independent investigation and assessment of the Internalisation proposal and the information contained in, or referred to in, this Explanatory Memorandum. Independent financial and taxation advice should be sought before making any decision in relation to how to vote in respect of the Internalisation or any investment decision in relation to MQA.

An investment in MQA is subject to investment risk including possible loss of income and principal invested.

## Responsibility for Information

The information in this Explanatory Memorandum remains subject to change without notice. MQA reserves the right to withdraw or vary the timetable for the Internalisation without notice. To the maximum extent permitted by law, MQA, each Macquarie entity, and their respective affiliates, officers, employees, agents, advisers and intermediaries disclaim all liability that may otherwise arise due to any information contained in this Explanatory Memorandum being inaccurate or due to information being omitted from this Explanatory Memorandum, whether by way of negligence or otherwise.

The historical information in this Explanatory Memorandum is, or is based upon, information that has been released to the market. It should be read in conjunction with MQA’s other periodic and continuous disclosure announcements including the MQA results for the year ended 31 December 2017 lodged with ASX Limited (“**ASX**”) on 28 February 2018 and announcements to the ASX available at [www.asx.com.au](http://www.asx.com.au).

# Disclaimer and Important Notices

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A copy of this Explanatory Memorandum will be lodged with the ASX. Neither the ASIC nor the ASX or any of their respective officers take any responsibility for the contents of this Explanatory Memorandum.

Macquarie, nor any of its respective affiliates, officers, employees, agents, advisers and intermediaries, nor MQA's advisers nor any other person named in this Explanatory Memorandum other than MQA, have authorised or caused the issue, submission, despatch or provision of this Explanatory Memorandum and, except as outlined below, none of them makes or purports to make any statement in this Explanatory Memorandum and there is no statement in this Explanatory Memorandum which is based on any statement by any of them.

Grant Samuel & Associates Pty Limited (ACN 050 036 372) (the **"Independent Expert"**) has provided and is responsible for the information contained in the Independent Expert's Report. None of MQA, any Macquarie entity nor any of their respective directors, officers, employees, agents, advisers or intermediaries assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except for MQA in relation to the factual information it has provided to the Independent Expert.

Macquarie has provided and is responsible for the Macquarie Information in respect of its holdings. Neither MQA nor any of its directors, officers, employees, agents, advisers or intermediaries assumes any responsibility for the accuracy or completeness of the Macquarie Information.

### Disclosures regarding forward looking statements

This Explanatory Memorandum contains certain "forward looking statements". Forward looking statements can generally be identified by the use of forward looking words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "will", "could", "may",

"target", "plan" and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance or outlook on future earnings, distributions or financial position or performance are also forward looking statements. The forward looking statements contained in this Explanatory Memorandum involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of MQA, and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. There can be no assurance that actual outcomes will not differ materially from these forward looking statements.

Subject to any continuing obligations under the Corporations Act or the Listing Rules, MQA does not give any undertaking to update or revise any forward looking statements after the date of this Explanatory Memorandum to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

### Currency

Unless stated otherwise, all dollar values are in Australian dollars (A\$) and financial data is presented as at the date stated. Any discrepancies between totals and sums of components in tables contained in this Explanatory Memorandum are due to rounding.

### Diagrams

The diagrams used in this Explanatory Memorandum are illustrative only. They may not necessarily be shown to scale. The diagrams are based on information which is current as at the date shown.

### Date

This Explanatory Memorandum is dated 9 April 2018

# Key Dates

Event	Date and Time
Date of this Explanatory Memorandum	Monday, 9 April 2018
Time and date by which proxy forms must be received	10.00 am Sydney time on Sunday, 13 May 2018
Time and date for determining eligibility to vote at the Meetings (Record Date)	7.00pm Sydney time on Sunday, 13 May 2018
Meetings of Securityholders to be held	10.00am, Tuesday 15 May 2018
ASX announcement of result of Meetings	Tuesday 15 May 2018
Internalisation completed	By Wednesday, 15 May 2019

All dates are indicative only and subject to change in MQA's absolute discretion. Any changes to the above timetable will be announced through the ASX. All times are Sydney time.

## Meeting location

The Meetings will be held at:

### Location

The Gold Melting Room  
The Mint, 10 Macquarie Street  
Sydney NSW 2000

### Date

Tuesday, 15 May 2018

### Time

10.00am

## What do you need to do next?

### Step 1 Carefully read this Explanatory Memorandum and the Notices of Meeting

You should read this Explanatory Memorandum and the Notices of Meeting in full before deciding how to vote. The frequently asked questions in Section 1 may help answer some of your questions. If you have any doubts about what action to take, you should seek your own independent financial, legal, tax or other professional advice before deciding how to vote at the Meetings.

### Step 2 Vote on the resolutions

If you are a Securityholder on the Record Date you are entitled to vote on the resolutions at the Meetings.

You can vote:

- in person, by attending the Meetings to be held at The Gold Melting Room, The Mint, 10 Macquarie Street, Sydney NSW 2000, commencing at 10.00am; or
- by proxy, by completing and returning a proxy form.

To ensure your proxy form is valid, you should return it so that it is received by 10.00am, Sunday 13 May 2018.

Instructions for completing and returning your proxy form are set out in the Notices of Meeting.

# Letter from the Chairpersons of the MQA Independent Board Committees

9 April 2018

Dear Fellow Securityholder

In November last year, the Boards of MARL and MARIL (the “**MQA Boards**”) announced that they had decided to pursue an internalisation of the MQA management. On 30 November 2017 the MQA Boards established independent board committees of each board (the “**Independent Board Committees**” or “**IBCs**”) to develop the Internalisation proposal.

Since earlier this year, the Independent Board Committees have engaged with Macquarie to agree the basis on which the Internalisation should proceed. MQA has reached an agreement with Macquarie, which is the subject of this Explanatory Memorandum and the basis of the resolutions to be considered by Securityholders at our meetings on 15 May 2018.

## Strategy and Rationale

When MQA was listed in 2010, there were a large number of externally managed infrastructure vehicles listed on the ASX. Since then, many of these vehicles have been internalised, taken over or otherwise restructured so that, today, MQA is the only significant infrastructure vehicle listed on the ASX that has an external manager.

At listing, MQA had a portfolio of complex and challenged assets which required intensive management. At the time, MQA only had a market value of approximately \$280 million and it would have been extremely difficult for the MQA Boards to have attracted the calibre and depth of management needed by MQA. An external management arrangement with Macquarie facilitated MQA being able to access and afford the quality of management and expertise needed to address the complexity of issues we faced.

Such external management arrangements also bring their own challenges. There are conflicts of interest which must be managed and fee structures including performance fees can be seen as misaligned with securityholder interests, but it was and continued to be the view of the MQA Boards, from inception through to 2017, that, on balance, the external

management structure was an appropriate and effective solution for MQA and in the best interest of Securityholders. Under Macquarie’s management, MQA has delivered investors strong returns and today MQA has a market value approaching \$4 billion.

Over recent years, MQA’s portfolio has been consolidated and streamlined. Non-core assets have been divested and additional interests acquired in three of our four remaining assets. In the case of Dulles Greenway, we now have effective operational control and in the case of the APRR/ADELAC network, we hold a position of significant influence as a large shareholder. Throughout this time, the MQA Boards have continued to review the external management structure and, in November 2017, in light of the portfolio simplification, the increased scale of our operations and the stage of development of the group, the MQA Boards decided that it is now appropriate to bring our management capability in house.

## Summary of terms of the Internalisation proposal

If the Internalisation proposal is approved, then:

- There will be no consideration paid to Macquarie for terminating the MQA Management Agreements.
- Macquarie will remain as the manager of MQA for a further 12 month period from this year’s AGM on 15 May 2018. During this period, base management fees will be paid to Macquarie at the current rate of 0.85% of MQA’s Market Value (excluding any shares issued after 30 June 2018).
- In the meantime, the MQA Boards will appoint a new chief executive who will in turn recruit a new management team and establish the necessary infrastructure, systems and processes in order for MQA to manage its own operations independently and separately from Macquarie.
- From the date of termination of the MQA Management Agreements Macquarie will provide specific transition services for approximately a further 6 months for a fee of \$750,000 per month.

# Letter from the Chairpersons of the MQA Independent Board Committees

## continued

- The terms of the existing MQA Management Agreements will apply to the payment of MQA Performance Fees, on the basis that the MQA Management Agreements are treated for this purpose as being terminated on 1 July 2018. This means that:
  - a final MQA Performance Fee will be calculated for the year ending 30 June 2018 and, if earned, will be paid in full at that time;
  - the third instalment of the 2016 MQA Performance Fee and the second instalment of the 2017 MQA Performance Fee will continue to be subject to their respective performance hurdles which, in accordance with the current agreement, will be tested on 30 June 2018; and
  - as a result of the termination of the MQA Management Agreements being no later than 15 May 2019, the third instalment of the 2017 MQA Performance Fee will become payable without further performance testing.
- As a result of the termination of the MQA Management Agreements, Macquarie will start to receive fees for the ongoing management of our interest in APRR from 16 May 2019 (see below).
- MQA will change its name to Atlas Arteria and its ASX ticker code to ALX<sup>1</sup>.

### APRR and the MAF Group Advisory Agreement

Macquarie will continue to act as manager of our interest in APRR through the MAF Group and will be entitled to receive fees for this service from 16 May 2019 in accordance with the arrangements that have been in place since MQA's inception. As previously disclosed, these base fees, and potentially a performance fee, are waived while MQA is managed by Macquarie. The process to simplify this arrangement is complex and involves negotiation with a number of other parties. MQA will actively work with Macquarie and the other parties to see if mutually acceptable alternative arrangements can be achieved.

### Benefits of the Internalisation proposal for Securityholders

The Internalisation of MQA's management is expected to deliver a number of financial and governance benefits to Securityholders:

- It will replace the base management fees paid to Macquarie with directly incurred operating costs. We will have control over our costs rather than these being tied to fluctuations in MQA's market value, as is currently the case with Macquarie's base management fees.
- It will eliminate MQA Performance Fees payable to Macquarie, which have totalled \$262.8 million<sup>2</sup> over the last 7 years.
- The Internalisation will provide better transparency of the alignment of the management team to the interests of MQA as they will be employed and remunerated directly by MQA and will be solely focused on the MQA core business and strategy.
- Internalisation of management is expected to broaden MQA's appeal to a wider range of investors given some investors' policies preclude or discourage investment in externally managed listed vehicles.

### Risks and disadvantages of the Internalisation proposal

There are a number of risks and disadvantages associated with Internalisation which should be taken into account by Securityholders:

- During the next twelve months as MQA is building its own internal management capability, there will be a period of cost double up (including recruitment, salary and other ramp-up costs) as we will still be paying base management fees Macquarie under the existing fee structure. MQA will also need to pay one-off transaction costs associated with the Internalisation. In aggregate, these ramp-up and transaction costs are estimated to be approximately \$12 million.

1. Subject to Securityholder approval. The Internalisation is not conditional upon Securityholders approving the change of name.  
 2. Includes the third instalment of the 2016 performance fee (\$44.7m) as recognised in MQA's Financial Report for the year ended 31 December 2017.



# Letter from the Chairpersons of the MQA Independent Board Committees

## continued

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- As a standalone company, MQA will no longer be able to automatically access Macquarie Infrastructure and Real Assets' expertise and global reach, and may not retain the services of all or any of the Macquarie staff currently working for MQA.
- As Macquarie will continue to act as manager of MQA's interest in APRR through the MAF Group, Macquarie will be entitled to receive base fees, and potentially a performance fee, for this service from 16 May 2019.

The risks and disadvantages are outlined in more detail in Section 2.8 of this Explanatory Memorandum.

### Independent Board Committees' Recommendation

The Independent Board Committees unanimously recommend that Securityholders vote in favour of the Internalisation Resolutions. Directors who are members of the Independent Board Committees will vote any MQA Securities they hold in favour of Internalisation Resolutions.

### Independent Expert opinion

The Independent Board Committees commissioned Grant Samuel & Associates Pty Limited to prepare an Independent Expert Report reviewing the Internalisation proposal. This report is included as an annexure to this Explanatory Memorandum. The Independent Expert has concluded that the Internalisation proposal is fair and reasonable to, and in the best interests of, Securityholders.

### Securityholder approval

There is no statutory requirement for Securityholders to vote on the Internalisation. Notwithstanding this, the IBCs have resolved it is appropriate to put the Internalisation to Securityholders at the Meetings. Accordingly, for the Internalisation to proceed, Securityholder approval of the Internalisation Resolutions at the Meetings is required. Please read this Explanatory Memorandum and the Notices of Meeting carefully before making your decision and voting either by proxy or in person at the Meetings.

### Further information

If you have questions in relation to the Internalisation, please contact the MQA Securityholder Information line on 1800 621 694 (within Australia) or +61 2 8232 7455 (outside Australia) (Monday to Friday, between 9.00am and 6.00pm Sydney time).

Yours sincerely



**Nora Scheinkestel**

Independent Board Committee Chairperson  
Macquarie Atlas Roads Limited



**Jeff Conyers**

Independent Board Committee Chairperson  
Macquarie Atlas Roads International Limited

# 1. Questions and answers

## 1.1 The Internalisation

Question	Answer	Section for further information
<b>What is the Internalisation proposal?</b>	A proposal to internalise the current external management of MQA. MQA is currently managed by Macquarie under the MQA Management Agreements. Following Internalisation, MQA will employ its own staff directly.	Section 2.1
<b>What are the main elements of the Internalisation?</b>	<ul style="list-style-type: none"> <li>– The MQA Management Agreements will be terminated on 15 May 2019, unless MQA determines to terminate earlier.</li> <li>– The existing Macquarie team led by MQA CEO James Hooke will continue to provide substantially the same management services to MQA as it currently does while MQA concurrently establishes itself as a standalone entity, which will involve recruiting a new chief executive and executive team. The new chief executive and executive team will focus on hiring staff, and establishing the necessary infrastructure, systems and processes in order to manage its own operations independently and separately from Macquarie.</li> <li>– Macquarie will provide specific transition services to MQA from termination of the MQA Management Agreements until 31 December 2019, unless MQA determines to terminate earlier.</li> </ul>	Section 2
<b>Why are Securityholders being provided with information on the Internalisation now?</b>	To enable Securityholders to make an informed decision on how to vote on the Internalisation Resolutions which approve the Internalisation.	Section 2.12
<b>What was MQA's process in considering the Internalisation proposal?</b>	<p>The MQA Boards established the IBCs to consider and negotiate the Internalisation and to ensure the best interests of Securityholders were advanced on an independent basis. Directors associated with Macquarie did not take part in the IBCs' deliberations.</p> <p>The IBCs appointed the Independent Expert to opine on the Internalisation. The IBCs engaged Adara Partners as financial adviser and King &amp; Wood Mallesons as Australian legal adviser.</p>	Section 2.1
<b>What alternative options were considered by the IBCs?</b>	The MQA Boards decided that, in light of portfolio simplification, increased scale of operations and the stage of development of the group, as a top ASX 100 company with a market value approaching \$4 billion, it was now appropriate for MQA to employ its own management team who would be further aligned to the interests of MQA. Accordingly, the IBCs did not consider other alternatives such as renegotiating the current management terms with Macquarie or seeking to appoint an alternate manager. The IBCs consider that the internalisation of management would be in the best interests of Securityholders even if external management services could be sourced for a cost that is comparable to the estimated cost of running MQA on an internalised basis.	Section 2.1

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>What are the main consequences of Internalisation for MQA?</b>	<ul style="list-style-type: none"> <li>– Termination of Macquarie's role as manager of MQA by no later than 15 May 2019, with management fees payable at the current rate of 0.85% of MQA's Market Value until that date (regardless of any early termination).</li> <li>– Macquarie will provide specific transition services from the termination of the MQA Management Agreements until 31 December 2019 (unless MQA determines to terminate earlier) for a fee of \$750,000 per month, payable between 16 May 2019 and 31 December 2019 (regardless of any early termination).</li> <li>– Base management fees will cease to be incurred in favour of Macquarie after 15 May 2019. Instead, MQA will pay for directly incurred operating costs over which MQA will have control rather than MQA's costs being tied to fluctuations in MQA's market value.</li> <li>– After 30 June 2018, MQA will no longer incur MQA Performance Fees in favour of Macquarie, which have totalled \$262.8 million<sup>3</sup> over the last 7 years.</li> <li>– Macquarie will continue to act as manager of MQA's interest in APRR through the MAF Group. From 16 May 2019 annual base management fees of €7.4 million (\$11.9 million)<sup>4</sup> per annum will be incurred for the ongoing provision of APRR related management services by Macquarie to MAF2, the entity through which MQA is invested in APRR. A performance fee may also be incurred. See Section 2.7 for more detail.</li> <li>– MQA will need to pay recruitment, salary and other ramp-up costs, as well as one-off transaction costs. Combined, these are estimated to be approximately \$12 million.</li> <li>– MQA will establish itself as a standalone entity, recruiting a new chief executive and executive team and establish the necessary infrastructure, systems and processes in order to manage its own operations independently and separately from Macquarie. The IBCs estimate that the cost of running MQA on an internalised basis are between \$15m - \$20m per annum.</li> <li>– MQA will change its name to Atlas Arteria following Securityholder approval.</li> <li>– MQA's ASX ticker code will be changed to ALX.</li> </ul>	Sections 2.3, 2.6 and 2.7

3. Includes the third instalment of the 2016 performance fee (\$44.7m) as recognised in MQA's Financial Report for the year ended 31 December 2017.

4. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>Is there any consideration payable to Macquarie to terminate the MQA Management Agreements?</b>	<p>There is no consideration payable to Macquarie for the termination of the MQA Management Agreements.</p> <p>The existing MQA Management Agreements will continue with certain modifications until completion of the Internalisation on 15 May 2019, unless MQA determines to terminate earlier.</p> <p>MQA will continue to pay base management fees at the current rate of 0.85% per annum of MQA's Market Value until 15 May 2019. Based on MQA's Market Value as at 31 March 2018, these base management fees amount to approximately \$32.9 million per annum. These fees will be payable until 15 May 2019 even if the MQA Management Agreements are terminated early, unless terminated by MQA for cause. Any additional Securities issued by MQA after 30 June 2018 will be ignored for the purposes of calculating the base fee.</p> <p>The terms of the existing MQA Management Agreements will apply to the payment of MQA Performance Fees, on the basis that the MQA Management Agreements are treated for this purpose as being terminated on 1 July 2018. This means that:</p> <ul style="list-style-type: none"> <li>– a final MQA Performance Fee will be calculated for the year ending 30 June 2018 and, if earned, will be paid in full at that time;</li> <li>– the third instalment of the 2016 MQA Performance Fee and the second instalment of the 2017 MQA Performance Fee will continue to be subject to their respective performance hurdles which, in accordance with the current agreement, will be tested on 30 June 2018; and</li> <li>– as a result of the termination of the MQA Management Agreements being no later than 15 May 2019, the third instalment of the 2017 MQA Performance Fee will become payable without further performance testing.</li> </ul> <p>As part of the termination arrangements, Macquarie has agreed to provide specific transition services during the period from termination of the MQA Management Agreements until 31 December 2019 for a fee of \$750,000 per month, payable between 16 May 2019 and 31 December 2019 (regardless of any early termination) to ensure the smooth transition to an internal management structure.</p> <p>As a result of the termination of the MQA Management Agreements, Macquarie will start to receive base fees, and potentially a performance fee, for the ongoing management of MQA's interest in APRR from 16 May 2019 in accordance with the management arrangements that have been in place since MQA's inception</p>	Sections 2.5, 2.6 and 2.7

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>How will MQA fund the remaining fees and Internalisation costs?</b>	<p>The Internalisation does not change the options available to MQA to fund the payment of fees and Internalisation costs which include utilising any one or a mix of cash balances, equity or debt.</p> <p>No decision has been made as to how MQA will fund the remaining fees and Internalisation costs. The optimal funding method will be determined at the time of the relevant payment taking into account business and market conditions, asset performance, and other considerations.</p>	N/A
<b>Is there any consideration payable to Macquarie if the MQA Management Agreements are terminated early?</b>	<p>If the MQA Management Agreements are terminated earlier than 15 May 2019, other than by MQA for cause, Macquarie will still be paid base management fees at the current rate of 0.85% per annum of MQA's Market Value for the period until 15 May 2019.</p>	Section 3.5
<b>What are the conditions to the Internalisation?</b>	<p>The Internalisation is conditional on:</p> <ul style="list-style-type: none"> <li>– the approval of Securityholders on 15 May 2018; and</li> <li>– the Independent Expert not changing or withdrawing its conclusion in the Independent Expert's Report (which is set out in Annexure 1) prior to the Meetings that the Internalisation is fair and reasonable to, and in the best interests of, Securityholders.</li> </ul> <p>There can be no assurance that these conditions will be satisfied and therefore that the Internalisation will proceed. MQA will announce to the ASX any material developments in the status of these conditions.</p>	Section 2.4
<b>What will it cost to manage MQA on a standalone basis?</b>	<p>The IBCs estimate that the cost of running MQA on an internalised basis are between \$15m - \$20m per annum. In addition to this, MQA will pay Macquarie base fees of approximately €7.4 million (\$11.9 million)<sup>5</sup> per annum to act as its manager of APRR.</p> <p>This total cost compares with the current annual base fee of approximately \$32.9 million per annum at the current rate of 0.85% per annum of MQA's Market Value as at 31 March 2018. Whilst the annual savings of base management fees are not significant, the IBCs believe Internalisation is beneficial as it:</p> <ul style="list-style-type: none"> <li>– allows MQA to gain direct control of its costs rather than have these fluctuate according to changes in MQA's market value;</li> </ul>	Sections 2.3 and 2.7

5. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>What will it cost to manage MQA on a standalone basis?</b> continued	<ul style="list-style-type: none"> <li>– removes the possibility of future MQA Performance Fees (which have totalled \$262.8 million<sup>6</sup> in the last seven years) – however, a performance fee may become payable in respect of MQA's interest in APRR; and</li> <li>– addresses perceived conflict and governance concerns by having management directly employed by and aligned solely with MQA.</li> </ul>	
<b>What is the Independent Expert's opinion on the Internalisation?</b>	On the basis of the matters discussed in the Independent Expert's Report, the Independent Expert has concluded that the Internalisation is fair and reasonable to, and in the best interests of, Securityholders. The Independent Expert's Report is set out in full in Annexure 1.	Annexure 1
<b>What is the Independent Directors' recommendation?</b>	MQA directors who are independent of Macquarie unanimously recommend that Securityholders vote in favour of the Internalisation.	Section 2.10
<b>Are there benefits to Internalisation?</b>	<p>The IBCs believe that the Internalisation will:</p> <ul style="list-style-type: none"> <li>– allow MQA to replace the ongoing base management fees paid to Macquarie as manager of MQA with directly incurred operating costs. MQA will have control over its costs rather than these being tied to fluctuations in MQA's market value, as is currently the case with Macquarie's base management fees;</li> <li>– eliminate potential MQA Performance Fees otherwise payable to Macquarie;</li> <li>– be neutral to positive to net earnings (based purely on the removal of the base management fee and MQA Performance Fees) and, if there is an increase in the MQA Security price, increasingly positive over time;</li> <li>– provide better transparency of the alignment of the management team to the interests of MQA as they will be employed and remunerated directly by MQA and will be solely focused on the MQA core business and strategy; and</li> <li>– potentially broaden MQA's appeal to a wider range of investors given some investors' policies preclude or discourage investment in externally managed listed vehicles.</li> </ul>	Section 2.8

6. Includes the third instalment of the 2016 performance fee (\$44.7m) as recognised in MQA's Financial Report for the year ended 31 December 2017.

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>What are the disadvantages and risks of the Internalisation?</b>	<p>While the IBCs recommend that Securityholders vote in favour of the Internalisation, there are some risks and disadvantages associated with the Internalisation which Securityholders should consider. These are set out in Section 2.9 and include:</p> <ul style="list-style-type: none"> <li>– the loss of the ongoing automatic access to Macquarie Infrastructure and Real Assets' expertise and global reach in the infrastructure sector;</li> <li>– a period of cost double up until 15 May 2019, during which time MQA will continue to pay management fees to Macquarie while MQA concurrently establishes itself as a standalone entity and incurs recruitment, salary and other ramp-up costs. MQA will also need to pay one-off transaction costs associated with the Internalisation. These ramp-up and transaction costs are estimated to be approximately \$12 million, or if the Internalisation is not approved, approximately \$3.5 million up to the date of the AGM 2018;</li> <li>– from 16 May 2019, annual base management fees of €7.4 million (\$11.9 million)<sup>7</sup> per annum will be incurred for the ongoing provision of APRR related management services by Macquarie to MAF2, the entity through which MQA is invested in APRR. A performance fee may also be incurred. See Section 2.7 for more detail.</li> </ul>	Section 2.9
<b>What will happen if the Internalisation does not proceed?</b>	<p>If the Internalisation does not proceed then Macquarie will continue in its role as external manager, meaning:</p> <ul style="list-style-type: none"> <li>– Securityholders will not receive the anticipated benefits from the implementation of the Internalisation; and</li> <li>– Management will remain with Macquarie and MQA will continue to pay base management fees at the current rate of 0.85% per annum of MQA's Market Value and potentially MQA Performance Fees.</li> </ul>	Section 2.11
<b>Will MQA's CEO continue to act for MQA?</b>	<p>MQA's current CEO James Hooke has chosen to stay with Macquarie so he will not remain with MQA following Internalisation. The MQA Boards have commenced an international search for a new chief executive to join MQA and lead the internalised management team, and this search is well advanced.</p> <p>Under the terms of the MQA Management Agreements, Macquarie will use its best efforts to maintain the continuity of service of James Hooke as MQA CEO until the termination of the MQA Management Agreements.</p>	Section 2.3

7. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>Who will be managing MQA until completion of the Internalisation?</b>	<p>Until termination of the MQA Management Agreements (which is scheduled to occur by no later than 15 May 2019), the existing Macquarie team led by MQA CEO James Hooke will continue to run the business and Macquarie will continue to provide the full suite of services to MQA.</p> <p>Macquarie will use its best efforts to maintain the continuity of service to MQA of any senior management personnel who presently provide services to MQA under the MQA Management Agreements.</p> <p>MQA will concurrently develop its own management capability during that time, including by recruiting a new chief executive and executive team. The new chief executive and executive team will focus on establishing the necessary infrastructure, systems and processes in order to manage its own operations independently and separately from Macquarie.</p> <p>It is possible that existing members of the Macquarie team engaged in the management of MQA may join the new management team, but there is no assurance that any of them will do so.</p>	Section 2.5
<b>What will happen to the management team if the proposal does not proceed?</b>	If the Internalisation does not proceed, it is expected that the current management team will continue to be employed by Macquarie in their current roles.	Section 2.11
<b>How does key management remuneration following Internalisation compare with the current remuneration system?</b>	Management personnel are currently remunerated by Macquarie. Following Internalisation, the new management team will be directly employed by MQA on terms that have not yet been determined in detail but will reflect market benchmarking and be appropriate for a listed entity of MQA's nature and size.	N/A
<b>What will Macquarie's role be following Internalisation?</b>	<p>Specific transition services will be provided to MQA by Macquarie from termination of the MQA Management Agreements until 31 December 2019.</p> <p>Macquarie may also continue to have arm's length business dealings with MQA in the ordinary course of business.</p> <p>As at 31 March 2018, Macquarie does not have a Principal Holding in MQA Securities.</p>	Section 2.5



# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>Will Macquarie continue to manage APRR?</b>	<p>A Macquarie entity currently provides management services in respect of MQA's investment in APRR. Following Internalisation, Macquarie will continue to act as manager of MQA's interest in APRR. Fees in relation to these services are currently waived while MQA is managed by Macquarie.</p> <p>In accordance with the management arrangements that have been in place since MQA's inception, from 16 May 2019 annual base management fees of €7.4 million (\$11.9 million)<sup>8</sup> per annum will be incurred for the ongoing provision of APRR related management services by Macquarie to MAF2, the entity through which MQA is invested in APRR. A performance fee may also be incurred, the calculation of which commences from 16 May 2019.</p> <p>The process to simplify this arrangement is complex and involves negotiation with a number of other parties. It is intended that MQA will actively work with Macquarie and the other parties involved to see if mutually acceptable alternative arrangements can be achieved. No assurance can be given that any alternative arrangement will be implemented.</p>	Section 2.7
<b>Will there be any change to the asset management team of Dulles Greenway or Warnow?</b>	No. The asset management team of Dulles Greenway and Warnow are employed by the MQA group, and will remain with MQA following the Internalisation.	N/A
<b>Does the Internalisation change a Securityholder's position?</b>	The Internalisation does not change a Securityholder's position but rather changes the investment profile in respect of their holding of MQA Securities.	N/A
<b>Will the Internalisation trigger any pre-emptive rights in respect of MQA's securityholdings in its assets?</b>	No.	Section 2.7
<b>Will the Internalisation cause any default under MQA's finance facilities?</b>	No.	N/A

8. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>How is the Internalisation being implemented?</b>	<p>The Internalisation is being implemented under the:</p> <ul style="list-style-type: none"> <li>– Advisory Agreement Amending Agreement;</li> <li>– Management Agreement Amending Agreement;</li> <li>– MARL Transition Services Agreement; and</li> <li>– MARIL Transition Services Agreement.</li> </ul> <p>The Management Agreement Amending Agreement and Advisory Agreement Amending Agreement make certain limited amendments to the existing MQA Management Agreements in order to effect the Internalisation. In particular the amendments:</p> <ul style="list-style-type: none"> <li>– specify that the management services currently provided by Macquarie will continue to be provided until 15 May 2019, unless MQA determines to terminate earlier;</li> <li>– specify that the base management fees at the current rate of 0.85% per annum of MQA's Market Value payable to Macquarie under the existing fee structure will continue to be paid until 15 May 2019 (regardless of any early termination);</li> <li>– specify that the terms of the existing MQA Management Agreements will apply to the payment of MQA Performance Fees, on the basis that the MQA Management Agreements are treated for this purpose as being terminated on 1 July 2018; and</li> <li>– specify that Macquarie must use its best efforts to maintain the continuity of service of MQA's CEO, CFO and any staff working for MQA.</li> </ul> <p>Section 3.5 summarises certain other amendments to the MQA Management Agreements.</p> <p>The Transition Services Agreements provide for Macquarie to provide specific transition services to MQA during the period from termination of the MQA Management Agreements until 31 December 2019 to ensure the smooth transition to an internal management structure. Macquarie will be entitled to transition services fees of \$750,000 per month, payable between 16 May 2019 and 31 December 2019 (regardless of any early termination).</p>	Sections 2.6, 3.5 and 3.6

# 1. Questions and answers

## continued

Question	Answer	Section for further information
<b>What is the impact of the Internalisation on MQA's ability to pay distributions?</b>	<p>There will be no change to the distribution guidance of 24.0 cents per MQA Security for the financial year ended 31 December 2018 as a result of the Internalisation being approved and implemented.<sup>9</sup></p> <p>MQA's future dividend or other distributions will be determined by the relevant Board(s) of MQA, having regard to the operating results, and financial position of MQA at the time and any other relevant consideration. There is no guarantee that any dividend or other distribution will be paid, or, if paid, that they will be paid at previous levels.</p>	N/A
<b>What are the tax implications of the Internalisation?</b>	<p>The Internalisation should not directly impact the taxation treatment of Securityholders' investment in MQA. However, Securityholders should seek specific tax or financial advice applicable to their particular circumstances.</p>	N/A

9. Subject to asset performance, foreign exchange movements and future events.

# 1. Questions and answers

## continued

### 1.2 The Meetings

Question	Answer	Section for further information
<b>What are the resolutions to approve the Internalisation?</b>	<p>Securityholder approval is sought to approve the Internalisation as described in this Explanatory Memorandum including by amending and ultimately terminating the Advisory Agreement and the Management Agreement, and by entering into the Transition Services Agreement (to take effect when the MQA Management Agreements are terminated).</p> <p>This is an ordinary resolution.</p> <p>MQA also proposes to seek Securityholder approval to change MQA's name to Atlas Arteria as a special resolution, but the Internalisation is not dependent upon the outcome of that resolution.</p>	Section 2.12
<b>Is Macquarie able to vote on the Internalisation proposal?</b>	<p>Yes. However, as at 31 March 2018 Macquarie does not have a Principal Holding in any MQA Securities.</p> <p>Macquarie's Associates may vote on the resolutions to be considered at the Meetings.</p>	Section 3.1
<b>Can Securityholders vote differently on each resolution?</b>	Yes. The Internalisation is not conditional upon the approval of any other resolutions to be considered at the Meetings. If the Internalisation Resolutions are approved but not any other resolution, then the Internalisation will still be implemented.	Section 2.12
<b>When and where are the Meetings?</b>	<p>The Meetings are scheduled to be held at 10.00am on Tuesday 15 May 2018 at:</p> <p>The Gold Melting Room The Mint, 10 Macquarie Street Sydney NSW 2000</p>	Notices of Meeting
<b>Am I entitled to vote?</b>	If you are a Securityholder on the register as at 7.00pm Sydney time on Sunday, 13 May 2018, you will be entitled to vote at the Meetings, unless you are otherwise excluded in the manner as set out in the Notices of Meeting.	Notices of Meeting

# 1. Questions and answers

## continued

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Question	Answer	Section for further information
<b>Where and when do I send my proxy form?</b>	<p data-bbox="496 600 1209 656">To vote by proxy, you need to complete and return the proxy form accompanying the Notices of Meeting.</p> <p data-bbox="496 683 1209 806">You must ensure that your proxy form (and if signed by a Securityholders' attorney, a certified copy of the relevant authority under which it is signed) is received by no later than 10.00am on Sunday, 13 May 2018:</p> <ul data-bbox="496 828 1209 1124" style="list-style-type: none"> <li data-bbox="496 828 1094 857">– by deposit at MARL's registered office in Sydney; or</li> <li data-bbox="496 875 831 904">– received by the Registry at:               <ul data-bbox="536 922 1209 1124" style="list-style-type: none"> <li data-bbox="536 922 1027 952">• GPO Box 242, Melbourne, Victoria, 3001;</li> <li data-bbox="536 969 1114 999">• Level 4, 60 Carrington Street, Sydney NSW 2000;</li> <li data-bbox="536 1016 991 1046">• facsimile number+ 61 3 9473 2555; or</li> <li data-bbox="536 1064 1209 1124">• electronically at <a href="http://www.computershare.com.au">www.computershare.com.au</a> in accordance with the instructions set out in the proxy form.</li> </ul> </li> </ul>	Notices of Meeting

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## 2. Details of the Internalisation

### 2.1 Background, strategy and rationale

MQA was established and listed on the ASX in January 2010 as a result of a Securityholder approved restructure of Macquarie Infrastructure Group (“MIG”) into two separate tollroad groups, Intoll and MQA.

At the time of establishment, MQA entered into the MQA Management Agreements with Macquarie to manage and advise MQA on a non-discretionary basis, that is, key decision making is reserved to the MQA Boards. In the view of the MQA Boards at the time of separation from MIG, Macquarie’s expertise was required to address the challenges associated with MQA’s portfolio of complex and challenged assets which required intensive management. At the time, MQA only had a market value of approximately \$280 million and it would have been extremely difficult for the MQA Boards to have attracted the calibre and depth of management needed by the group. An external management arrangement with Macquarie facilitated MQA being able to access and afford the quality of management and expertise needed to address the complexity of issues MQA faced.

Under Macquarie’s management, MQA has delivered investors strong returns and today MQA has a market value approaching \$4 billion.

Over recent years, MQA’s portfolio has been consolidated and streamlined. Non-core assets have been divested and additional interests acquired in three of MQA’s four remaining assets. In the case of Dulles Greenway, MQA now has effective operational control and in the case of the APRR/ADELAC network, MQA holds a position of significant influence as a large shareholder. Throughout this time, the MQA Boards have continued to review the external management structure and, in November 2017, in light of the portfolio simplification, the increased scale of our operations and the stage of development of the group, the MQA Boards decided that it is now appropriate to bring MQA’s management capability in house.

Given the decision that MQA’s increased scale of operations and the stage of development of the group, as a top ASX 100 company with a market value approaching \$4 billion, justify standalone, in house management, the IBCs did not consider other alternatives such as renegotiating the current

management terms with Macquarie or seeking to appoint an alternate manager. The IBCs consider that the internalisation of management would be in the best interests of Securityholders even if external management services could be sourced for a cost that is comparable to the estimated cost of running MQA on an internalised basis.

On 30 November 2017 the MQA Boards established the Independent Board Committees to consider and negotiate the terms of the Internalisation proposal set out in this Explanatory Memorandum. Since earlier this year, the IBCs have engaged with Macquarie to agree the basis on which the Internalisation will proceed. The IBCs engaged Adara Partners as financial adviser and King & Wood Mallesons as Australian legal adviser to assist them. The IBCs also engaged contractors and advisers experienced in tollroad operations to assist the IBCs in assessing the likely steps and costs involved in managing MQA internally.

The IBCs have concluded that the Internalisation described in this Explanatory Memorandum is in the best interests of Securityholders. In considering this conclusion, the IBCs consulted with a number of Securityholders in an effort to ensure that the concerns which some investors have expressed about MQA’s current structure were understood and taken into account.

The IBCs were constituted to comprise only directors who are independent of Macquarie. In determining the status of a director, MQA applies the standards of independence which have been adopted by MQA and are described in Annexure 2. The independence standards adopted by MQA conform to the Corporate Governance Principles and Recommendations (3rd edition) issued by the ASX Corporate Governance Council, taking into account MQA being an externally managed listed vehicle.

The composition of the IBCs are as follows:

- the MARL IBC comprises Nora Scheinkestel (Chairperson), Richard England and Debra Goodin; and
- the MARIL IBC comprises Jeff Conyers (Chairperson), James Keyes, Derek Stapley and Nora Scheinkestel.

## 2. Details of the Internalisation continued

To ensure the best interests of Securityholders were advanced on an independent basis, the MQA Boards have adopted management protocols to govern their conduct. The protocols are designed to ensure that the Macquarie staff who act for MQA preferred the interests of Securityholders above Macquarie's interests.

Refer also to Section 3.7 for details of fees and other financial benefits paid to the directors by MQA for their roles on the MQA Boards and, if applicable, paid by Macquarie for their roles on the boards of other Macquarie managed vehicles. The table in Section 3.7 also explains why the Independent Directors meet the MQA independence criteria.

### 2.2 Internalisation transactions

MQA and the Manager have entered into the Advisory Agreement Amending Agreement and Management Agreement Amending Agreement, whereby (subject to the requisite majority of Securityholders approving the Internalisation Resolutions) the parties have agreed to internalise the management of MQA and terminate the MQA Management Agreements by no later than 15 May 2019. Macquarie will continue to be entitled to management fees and will, unless the MQA Management Agreements are terminated early, continue to provide management services to MQA during that period.

The main steps to Internalise MQA's management are:

- the MQA Management Agreements will be terminated on 15 May 2019, unless MQA determines to terminate earlier. Base management fees will remain payable at the current rate until 15 May 2019 regardless of any early termination; and
- Macquarie will provide specific transition services to MQA from termination of the MQA Management Agreements until 31 December 2019 for a fee of \$750,000 per month, payable between 16 May 2019 and 31 December 2019 (regardless of any early termination), as described in Section 2.6.

Section 3 summarises the material contracts relating to the Internalisation.

### 2.3 Consequences of the Internalisation for MQA

The Internalisation will result in:

- Termination of Macquarie's role as manager of MQA by no later than 15 May 2019. Macquarie will provide specific transition services from the termination of the MQA Management Agreements until 31 December 2019 for a fee of \$750,000 per month, payable between 16 May 2019 and 31 December 2019 (regardless of any early termination);
- Base management fees will cease to be incurred in favour of Macquarie after 15 May 2019. Instead, MQA will pay for directly incurred operating costs over which MQA will have control rather than MQA's costs being tied to fluctuations in MQA's market value;
- After 30 June 2018, MQA will no longer incur MQA Performance Fees in favour of Macquarie, which have totalled \$262.8 million<sup>10</sup> over the last 7 years. Base management and MQA Performance Fees totalling \$388.7 million have been paid between listing and 31 December 2017;
- MQA establishing itself as a standalone entity, which will involve recruiting a new chief executive and executive team, and establishing the necessary infrastructure, systems and processes in order to manage its own operations independently and separately from Macquarie;
- MQA will need to pay recruitment, salary and other ramp-up costs, as well as one-off transaction costs. Combined, these are estimated to be approximately \$12 million. If the Internalisation is not approved, approximately \$3.5 million up to the date of the AGM 2018. Further amounts may be paid to professional advisers;
- MQA will change its name to Atlas Arteria following Securityholder approval and MQA's ASX ticker code will be changed to ALX;
- MQA will incur ongoing costs estimated at between \$15 – 20 million per annum as a result of internal management; and

10. Includes the third instalment of the 2016 performance fee (\$44.7m) as recognised in MQA's Financial Report for the year ended 31 December 2017.

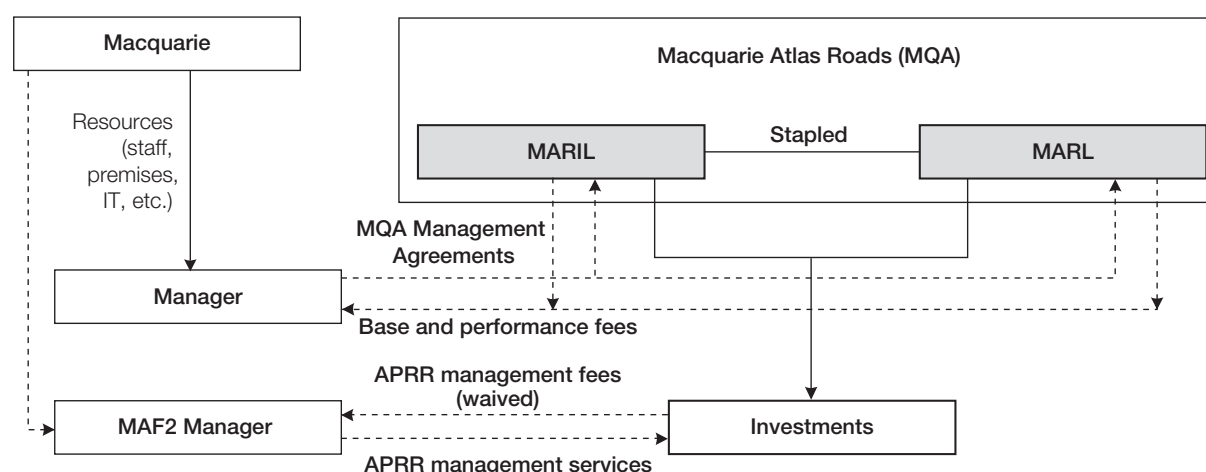
## 2. Details of the Internalisation continued

- Macquarie will continue to act as manager of MQA's interest in APRR through the MAF Group. From 16 May 2019, MQA will incur annual base management fees of €7.4 million (\$11.9 million)<sup>11</sup> per annum for the ongoing provision of these management services by Macquarie to MAF2, the entity through which MQA is invested in APRR, and may incur a performance fee, the calculation of which commences from 16 May 2019. See Section 2.7 for more detail.

If the Internalisation proceeds, it is proposed that there will be no immediate change to the composition of the MQA Boards. However the MQA Boards will continue a process of review and renewal to ensure that they have the requisite combination of skills and expertise to oversee and execute on MQA's strategy.

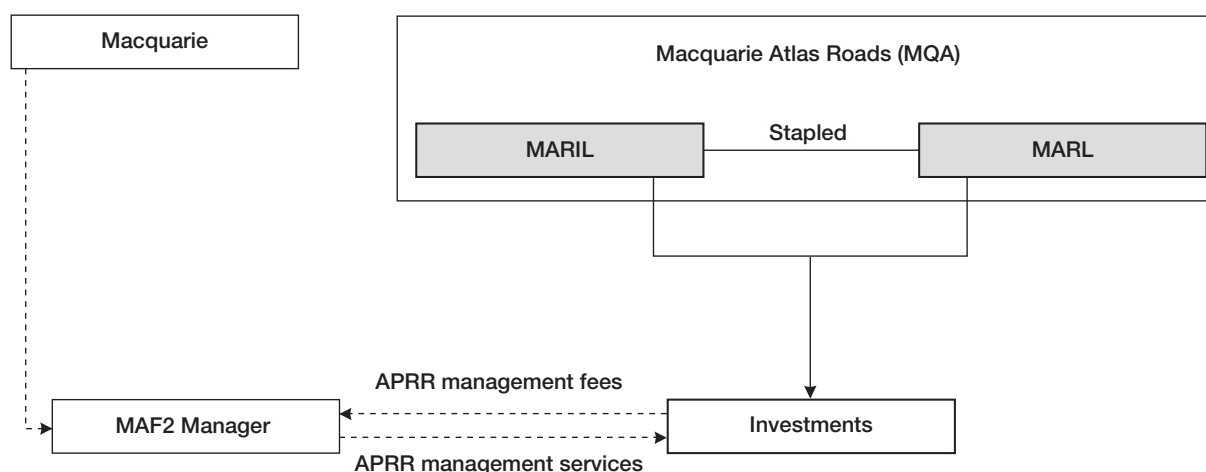
Structure diagrams for MQA before and after the Internalisation are shown below including the management arrangements with Macquarie.

### Current structure



### Following Internalisation

Following the Internalisation, the external management arrangements with Macquarie will have ceased. A simplified version of this structure is shown below.



11. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.



## 2. Details of the Internalisation

### continued

#### 2.4 Conditions to completion of the Internalisation

The Internalisation is subject to the following conditions. MQA will announce to the ASX any material developments in the status of these conditions.

Condition	Description of condition	Status of condition
<b>Independent Expert's Report</b>	The Independent Expert not changing or withdrawing its conclusion in the Independent Expert's Report (which is set out in Annexure 1) prior to the Meetings that the Internalisation is fair and reasonable to, and in the best interests of, Securityholders.	MQA is not aware of any intention by the Independent Expert to change the conclusion or withdraw the report.
<b>Securityholder approval</b>	Securityholders approving the Internalisation Resolutions.  (A resolution to change MQA's name to Atlas Arteria will also be considered at the Meetings to approve the Internalisation but the Internalisation is not dependent on the outcome of that resolution, see Section 2.12).	N/A

#### 2.5 Ongoing management arrangements with Macquarie

There is no consideration payable to Macquarie for the termination of the MQA Management Agreements.

Macquarie will continue to manage MQA under the MQA Management Agreements until 15 May 2019, unless MQA determines to terminate earlier. MQA will continue to pay base management fees for these services at the current rate of 0.85% per annum of MQA's Market Value until 15 May 2019 (regardless of any early termination). Based on MQA's Market Value as at 31 March 2018, these base management fees amount to approximately \$32.9 million per annum.

Any additional Securities issued by MQA after 30 June 2018 will be ignored for the purposes of calculating the base fee. These fees will be payable until 15 May 2019 even if the MQA Management Agreements are terminated early, unless terminated by MQA for cause.

The terms of the existing MQA Management Agreements will apply to the payment of MQA Performance Fees, on the basis that the MQA Management Agreements are treated for this purpose as being terminated on 1 July 2018. This means that:

- a final MQA Performance Fee will be calculated for the year ending 30 June 2018 and, if applicable, will be paid in full at that time;
- the third instalment of the 2016 MQA Performance Fee and the second instalment of the 2017 MQA Performance Fee will continue to be subject to their respective performance hurdles which, in accordance with the current agreement, will be tested on 30 June 2018; and
- as a result of the termination of the MQA Management Agreements being no later than 15 May 2019, the third instalment of the 2017 MQA Performance Fee will become payable without further performance testing.

Under the MQA Management Agreements, Macquarie has an obligation to use its best efforts to maintain the continuity of service to MQA of James Hooke as MQA CEO and any other senior management personnel nominated by Macquarie and approved by the MQA Boards. If any senior management personnel terminate their employment with Macquarie prior to termination of the MQA Management Agreements, Macquarie must use its best efforts to find suitable replacements of commensurate skill and experience.

## 2. Details of the Internalisation continued

Upon termination of the MQA Management Agreements, MQA may or may not decide to replace such executives, change MQA's organisational structure, or outsource part or all of some of these functions, which will have an impact upon total employee numbers.

As a result of the termination of the MQA Management Agreements, Macquarie will start to receive fees for the ongoing management of MQA's interest in APRR from 16 May 2019 (see Section 2.7 below).

### 2.6 Transition arrangements with Macquarie

Specific transition services will be provided to MQA by Macquarie under the Transition Services Agreements. These services include:

- assistance with the transfer of employees who wish to accept an offer of employment from MQA and whose transfer is approved by the MQA Boards;
- providing the services performed by Macquarie's Luxembourg operations as at the date of the Transition Services Agreements in relation to the administration of certain MQA offshore entities;
- Non-Executive Director Christopher Leslie serving on the MARIL Board and/or the Dulles Greenway Board, if requested by MQA;
- making available and facilitating access to certain specified senior management personnel to assist in the management of ongoing operations, stakeholder issues and the planning and implementation of strategies in relation to particular assets; and
- acting at the reasonable direction of MQA where necessary for MQA's directors to discharge their duties as directors or to avoid MQA contravening any law or provision of the Listing Rules or any obligation or contract binding on it.

These services will be provided to MQA from the termination of the MQA Management Agreements until 31 December 2019 for a fee of \$750,000 per month, payable between 16 May 2019 and 31 December 2019. MQA has a right to discontinue

the transition services for convenience on 7 days written notice, provided that MQA pays Macquarie the transition fees for the remainder of the term.

### 2.7 Effect of the Internalisation on APRR and MAF2 management arrangements

Macquarie manages MQA's interest in APRR through an agreement for the provision of management services by Macquarie to Macquarie Autoroutes de France 2 SA ("**MAF2**"), being the entity through which MQA is invested in Financiere Eiffarie ("**FE**"), a French joint investment company which holds MQA's investment in APRR. This agreement will remain in place whether or not the Internalisation is approved.

Under the existing MAF2 agreement, Macquarie is entitled to receive a base management fee of approximately €7.4 million (\$11.9 million)<sup>12</sup> per annum, calculated as a fixed, non-escalating fee of €147,500 (\$233,980)<sup>13</sup> for every 1% interest MQA holds in MAF2 (being as at the date of this Explanatory Memorandum, 50.1%). These fees have been waived while MQA is managed by Macquarie. If the Internalisation is approved, these fees will become payable, effective 16 May 2019.

A performance fee may also become payable depending on the performance of APRR. A performance fee equal to 15% of actual cash flows is payable when MQA's internal rate of return exceeds 8%. This calculation starts, if the Internalisation is approved, on 16 May 2019 and is based on the IRR achieved from an agreed valuation of APRR at that date.

The IBCs believe that the contingent liability that this performance fee may generate is an acceptable consequence of Internalising, for the following reasons:

- unlike the current MQA Performance Fees which are payable if MQA's Security price outperforms a share price index, any performance fee under the MAF2 agreement is only payable if MQA's cash flows from APRR exceed an IRR hurdle rate of 8%;

12. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.

13. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.

## 2. Details of the Internalisation continued

- unlike the current MQA Performance Fees which are payable annually, any performance fee under the MAF2 agreement would only become payable towards the end of MQA's holding period and is based on cash flows received to that point, or on the value of APRR on a sale or termination. It is not MQA's current intention to sell its interest in APRR. Even if a performance fee was payable and such fee was calculated over the full remaining concession period of approximately 18 years, the present value of any such payment would be significantly reduced because of the length of the discount period; and
- based on MQA's internal projections, the IBCs consider the level and likelihood of a performance fee becoming payable to be an acceptable risk in the context of the Internalisation.

As a result of continuation of the current arrangements, MQA's ability to impact the governance of APRR will continue to be dependent on co-operation with Macquarie and MQA will continue to rely on Macquarie to manage its investment in APRR. Nothing will change in this respect as a result of the Internalisation.

The process to simplify this arrangement is complex and involves negotiation with a number of other parties. It is intended that MQA will actively work with Macquarie and the other parties involved to see if mutually acceptable alternative arrangements can be achieved. No assurance can be given that any alternative arrangement will be implemented.

### 2.8 Reasons why you should vote in favour of the Internalisation

The IBCs consider that the Internalisation is an important further step in enhancing Securityholder value. The Internalisation is expected to deliver a number of financial and governance benefits to Securityholders. The main benefits are described below.

This Section is a summary only and is not intended to address all the relevant issues for Securityholders in respect of the Internalisation. This Section should be read in conjunction with the other Sections of this Explanatory Memorandum.

#### **(a) The IBCs consider the Internalisation is in the best interests of Securityholders**

As part of an ongoing active review of the management arrangements and taking into account the portfolio simplification, the increased scale of MQA's operations and the stage of development of the group, as a top ASX 100 company with a market value approaching \$4 billion, the MQA Boards have decided that it is now appropriate to bring MQA's management capability in house. The MQA Boards consulted with key stakeholders and the IBCs have worked with advisers to negotiate a basis for doing so with Macquarie. The IBCs believe that the Internalisation is in the best interests of Securityholders and recommend the Internalisation to Securityholders.

#### **(b) The Independent Expert has concluded that the Internalisation is fair and reasonable to, and in the best interests of, Securityholders**

The Independent Expert was engaged by the IBCs to provide an assessment of the Internalisation for the benefit of Securityholders. The Independent Expert has concluded that the Internalisation is fair and reasonable to, and in the best interests of, Securityholders.

A full copy of the Independent Expert's Report is attached as Annexure 1.

#### **(c) Eliminating the MQA base management fees and MQA Performance Fees payable to Macquarie**

From 15 May 2019, the base management fees and potential MQA Performance Fees payable to Macquarie will be eliminated and replaced with directly incurred operating costs, giving MQA greater control and certainty over its future operating costs rather than MQA's costs being tied to fluctuations in MQA's market value.

Macquarie's entitlement to these fees is summarised in Section 3.2. Further details are also available on MQA's corporate website at <http://www.macquarie.com.au/MQA>.

## 2. Details of the Internalisation

### continued

The base management and MQA Performance Fees paid to Macquarie since listing have been:

Financial year ending 31 December (\$m)	2010 <sup>14</sup>	2011	2012	2013	2014	2015	2016	2017	Total
Base fee	10.4	14.4	14.8	20.0	22.9	25.9	29.4	32.8	<b>170.6</b>
MQA Performance Fee paid	4.2	20.9	20.9	16.7	19.4	19.4	64.1	52.6	<b>218.1</b>
<b>Total</b>	<b>14.6</b>	<b>35.3</b>	<b>35.7</b>	<b>36.7</b>	<b>42.3</b>	<b>45.3</b>	<b>93.5</b>	<b>85.4</b>	<b>388.7</b>
Possible MQA Performance Fees calculated but not paid	-	-	-	-	-	-	44.7	16.0	60.7

While MQA will incur ongoing operating costs and one-off transaction costs as a result of internalising management as well as base fees, and potentially a performance fee, in respect of APRR, the IBCs anticipate the net benefit from the elimination of the base management fee and potential MQA Performance Fees currently payable to Macquarie under the existing fee structure will outweigh the incremental costs.

#### (d) Removal of the relationship between MQA's costs and MQA Security price

The Internalisation will also ensure that any market outperformance will no longer attract higher base management fees and potentially further MQA Performance Fees.

#### (e) Greater alignment of interests

The Internalisation proposal will provide better transparency of the alignment of the interests of MQA and MQA management as the management of MQA following Internalisation will be directly employed by MQA and solely focused on the MQA core business and strategy.

#### (f) Potential for broadening the investor base and appeal

Following the Internalisation, MQA will cease to be externally managed, potentially broadening MQA's appeal to a wider range of investors given some investors' policies preclude or discourage investment in externally managed listed vehicles.

### 2.9 Reasons why you might vote against the Internalisation

A number of risks and uncertainties, which are both specific to MQA and of a more general nature, may affect the future financial performance and position of MQA and the value of MQA Securities. The risks, uncertainties and disadvantages described below are not the only ones facing MQA or associated with the Internalisation or an investment in MQA Securities.

#### (a) You may think that the one-off transaction and implementation costs are too high

You may think that the recruitment, salary and other ramp-up costs, or the one-off transaction costs are too high. If the Internalisation is implemented, MQA will need to pay approximately \$12 million in ramp-up and transaction costs associated with the Internalisation, or if the Internalisation is not approved, \$3.5 million up until the date of the AGM 2018. Further amounts may be paid to professional advisers. These costs are in addition to those costs incurred by MQA as part of its normal operations.

The IBCs are of the opinion that the costs to be paid to implement the Internalisation are reasonable and less than the cost savings which will be achieved on an ongoing basis by removing the external manager, and that the Internalisation should therefore be value enhancing for Securityholders. However, this opinion is based on a number of assumptions concerning future matters and there can be no assurance that these will occur.

14. From listing on 25 January 2010.

## 2. Details of the Internalisation continued

### **(b) You may think that the estimated ongoing cost savings from Internalisation are too low**

You may think that the estimated ongoing cost savings from Internalisation are too low. Whilst MQA will no longer incur the base management fees or MQA Performance Fees to Macquarie following Internalisation (for example, total fees have averaged \$48.6 million per annum since MQA was listed), MQA is expected to directly incur \$15 – 20 million per annum in its own costs, including staff remuneration and a number of operating costs.

MQA will also incur ongoing fees of approximately €7.4 million (\$11.9 million)<sup>15</sup> per annum in respect of APRR management services from 16 May 2019, and a performance fee may become payable in the future. See Section 2.7.

The additional annual costs that will be incurred if the Internalisation proceeds are expected to be less over time than the increased earnings achieved as a result of ceasing to pay base management and MQA Performance Fees to Macquarie, however forecasts are subject to uncertainties and contingencies and there is a risk that the benefits from the Internalisation will not be realised to the extent forecast or at all.

### **(c) You may consider that the need for MQA to establish staff and head office infrastructure will have a detrimental impact**

As an externally managed group, Macquarie currently provides key staff and head office services to MQA including capital and financial management of MQA and MQA's investments, recommendations to the MQA Boards on day to day management issues, fund administration, company secretarial services, preparation of budgets and valuations, and investor contact and meetings. The CEO and CFO of MQA are provided under the MQA Management Agreements.

After the Internalisation, MQA will need to attract and retain staff and develop head office infrastructure appropriate for an independent listed infrastructure company, to replace the services currently provided by Macquarie.

Until completion of the Internalisation, Macquarie will continue to provide management services under the MQA Management Agreements. Thereafter,

Macquarie will provide specific transition services under the Transition Services Agreements in relation to the period between termination of the MQA Management Agreements and 31 December 2019.

### **(d) You may consider that another entity is better placed to manage MQA**

You may prefer that another manager is appointed, rather than terminating the arrangement with Macquarie under the Internalisation. The appointment of another manager would mean that MQA would remain an externally managed group, it would not have access to the existing management team, and none of the benefits described in the Letter from the Chairpersons of the IBCs and Section 2.8 would materialise.

### **(e) You may consider that the potential head office disruption will distract from MQA's operations**

Macquarie will continue to provide specific transition services to MQA for a period after termination of the MQA Management Agreements to assist MQA in achieving a smooth transition to an internal management structure. However, the transition from external to internal management may cause a level of head office disruption.

There will also be management changes in MQA following the Securityholder vote and completion of the Internalisation. MQA will need to hire additional staff and may not retain the services of all or any of the Macquarie staff currently working for MQA. There is no assurance MQA will be able to replicate the functions which Macquarie provided as an external manager or the terms on which those functions may be made available.

### **(f) You may consider that any internalisation should have included the removal of Macquarie as manager of MQA's interest in APRR**

Whilst the Internalisation proposal means that Macquarie will no longer manage MQA, Macquarie will continue as the manager of MQA's interest in APRR, and will receive fees in that capacity (see Section 2.7). You may consider that the terms of any internalisation should include the separation from Macquarie at all levels, including in relation to APRR.

15. Based on a EUR/AUD exchange rate of \$1.61 as at 31 March 2018.



## 2. Details of the Internalisation continued

The IBC believes that the Internalisation proposal set out in this Explanatory Memorandum is in the best interests of Securityholders because it achieves the benefits described in Section 2.8, irrespective of the continuation of Macquarie's role as manager of MAF2. As described in Section 2.7, the process to simplify this arrangement is complex and involves negotiation with a number of other parties. It is intended that MQA will actively work with Macquarie and the other parties involved to see if mutually acceptable alternative arrangements can be achieved. No assurance can be given that any alternative arrangement will be implemented.

**(g) There is no certainty that internalisation of management will broaden the investor base, investor appeal, or improve the price of MQA Securities**

While the IBCs expect that an internalised management model may broaden the investor base and appeal of MQA, there is no guarantee that this will in fact occur or that the price of MQA Securities will increase. The price of MQA Securities may be affected by other factors that are unrelated to the Internalisation such as performance of its businesses and movements in foreign exchange and capital markets.

**(h) You may consider that the loss of Macquarie's expertise will have a detrimental impact**

If the Internalisation is implemented, MQA will no longer be managed by Macquarie and accordingly will lose the support and global reach provided by the Macquarie Infrastructure and Real Assets division of Macquarie, and may not retain the services of all or any of the Macquarie staff currently working for MQA.

MQA's relationship with Macquarie provides MQA with access to additional expertise of the Macquarie Infrastructure and Real Assets division of Macquarie in managing infrastructure funds and their businesses, and sourcing of new acquisition opportunities. If the Internalisation is implemented, MQA may still access certain Macquarie services on an arm's length basis from time to time but may no longer be able to leverage these relationships and resources in the same way that it has been able to in the past. There can be no certainty as to the impact that this may have on MQA or the price of MQA Securities.

The IBCs believe that the internalised management team will be able to implement the strategic and operational objectives of the business effectively as an independent self-managed entity and access other external advisers as required, without needing to leverage the expertise of Macquarie.

**(i) You may consider that the removal of Macquarie branding will have a detrimental impact**

MQA is currently branded with the "Macquarie" name and corporate logos. If the Internalisation is implemented, MQA will cease to use the "Macquarie" name and logos and MQA and its businesses will be renamed and re-branded. There can be no certainty as to the impact that may have on the MQA business or the price of MQA Securities.

**(j) You may consider that the risks associated with the Internalisation outweigh any potential benefits**

You should evaluate the potential benefits of the Internalisation proposal (see the Letter from the Chairpersons of the IBCs and Section 2.8) against the risks associated with the Internalisation proposal in this Section.

You may consider that the risks outweigh any potential benefits, and may disagree with the conclusion of the MQA Boards that the Internalisation is in the best interests of Securityholders and with the conclusion of the Independent Expert that the Internalisation is fair and reasonable to, and in the best interests of, Securityholders.

### 2.10 Directors' recommendation

**(a) Independent Directors**

For the reasons set out in this Explanatory Memorandum, each Independent Director:

- recommends that Securityholders vote in favour of the Internalisation Resolutions; and
- intends to vote any MQA Securities that they hold in favour of the Internalisation Resolutions.

## 2. Details of the Internalisation

### continued

#### (b) Other directors

John Roberts is a consultant to Macquarie and Non-Executive Chairman of Macquarie Infrastructure and Real Assets, and Christopher Leslie is an employee of Macquarie. As these directors are associated with Macquarie, they will not make any recommendations in respect of the Internalisation Resolutions.

#### 2.11 Implications if the Internalisation is not approved

The Internalisation may or may not occur, resulting in investors holding an investment in either an externally managed stapled group, or an internally managed stapled group. The Internalisation is subject to a number of conditions set out in Section 2.4 which may or may not be satisfied. No assurance can be given that the Internalisation will proceed.

##### Macquarie will continue to manage MQA

If the Internalisation is not approved by Securityholders then Macquarie will continue in its role as manager. In particular:

- the Manager will continue as external manager of MQA and MQA will continue to pay base management fees at the current rate of 0.85% per annum of MQA's Market Value and potentially MQA Performance Fees to the Manager in future periods in accordance with the existing fee structure;
- management will remain with Macquarie and are expected to continue in their current roles;
- MQA will not change its name;
- MQA will not pay Macquarie the transition services fees;
- MQA will not incur the incremental costs associated with the establishment of employing its own staff and developing head office infrastructure; and
- MQA will pay transaction costs incurred in relation to the Internalisation proposal to the date of the Meetings, estimated to be approximately \$3.5 million.

##### Impact on management fees

If the Internalisation does not proceed, MQA will continue to pay base management fees at the current rate of 0.85% per annum of MQA's Market Value and potential MQA Performance Fees to Macquarie. The MQA Performance Fee is calculated with reference to the performance of the MQA accumulation index compared with the performance of the S&P/ASX 300 Industrials Accumulation Index. The value of the MQA Performance Fee payable to Macquarie may fluctuate over time for reasons unrelated to MQA's performance.

If the Internalisation does not proceed and Macquarie continues as external manager of MQA, the MAF2 management fees described in Section 2.7 will continue to be waived.

##### Reliance on the Manager

Securityholders will continue to rely on the judgement of Macquarie, and, in particular, on the judgement of its respective principals and officers to advise on the conduct and affairs of MQA. MQA's success depends, in some part, on the performance of Macquarie. Because Macquarie provides the personnel to the Manager, the loss of any key personnel by Macquarie as a whole could potentially materially affect the Manager's ability to effectively manage MQA. In addition, as such personnel will have been provided to MQA on a non-exclusive basis, there can be no assurance that such personnel or resources will be available at the times and to the extent required by MQA.

##### Removal of the Manager

Securityholders have the right to remove the Manager without cause by an ordinary resolution. In addition, the Manager may resign on 90 days' notice. In either case, if the Internalisation does not proceed and the Manager is later removed or resigns, MQA may not be able to find a suitable replacement or prepare for an internalisation in the available period of time, which may have an impact on MQA's operations.

## 2. Details of the Internalisation

### continued

#### 2.12 Securityholder approvals sought

##### (a) Internalisation Resolutions

Resolution 5 seeks the approval of Securityholders for the implementation of the Internalisation. The Internalisation will be effected by amending and restating the MQA Management Agreements on the terms set out in the Amending Agreements, and by entering into the Transition Services Agreements, each as summarised in this Explanatory Memorandum.

Securityholders are required to approve the amendment of the MQA Management Agreements to provide for the amendments summarised in Section 3.5, including for the MQA Management Agreements to terminate by no later than 15 May 2019.

MQA may only make a material variation to the MQA Management Agreements if approved by an ordinary resolution of more than 50% of the votes cast by Securityholders present in person or by proxy and entitled to vote on the resolution.

##### (b) Change of name resolution to be considered in the context of the Internalisation

Resolution 6 proposes that MARL's current name, "Macquarie Atlas Roads Limited" be changed to "Atlas Arteria Limited" and MARIL's current name, "Macquarie Atlas Roads International Limited" be changed to "Atlas Arteria International Limited". MQA is also seeking Securityholder approval to amend MARL's constitution to reflect the change of name.

Resolution 7 proposes that MARIL's Bye-Laws be amended to reflect the change of name and to update MARIL's Bye-Laws to remove the references to certain redundant terms.

MQA's ASX ticker code will be changed to ALX.

If the Internalisation is approved, the "Macquarie" name will no longer be relevant to the operations of the group. Following the Internalisation approval, MQA proposes to remove the "Macquarie" name from the MQA brand and to take steps to change the name of MARL and MARIL to a name excluding

"Macquarie" so that it does not imply an association with the business of Macquarie. MQA has agreed with Macquarie under the Amending Deeds that it will cease to use the Macquarie name by no later than the date of termination of the MQA Management Agreements.

MARL and MARIL may only change their names and amend their constituent documents to reflect that change in accordance with the requirements of the Corporations Act and Companies Act respectively. This will require a special resolution at a general meeting of MQA, which must be passed by at least 75% of the votes cast by MARL shareholders present in person or by proxy and entitled to vote on the resolution, and an ordinary resolution at a general meeting of MARIL, which must be passed by more than 50% of the votes cast by MARIL shareholders present in person or by proxy and entitled to vote on the resolution.

In respect of MARIL, the change of name is subject to approval of the Bermudan Registrar of Companies and will take effect once the Registrar of Companies enters the new name in the register of companies.

The Internalisation is not subject to this resolution being passed.

#### 2.13 Voting

You can ensure your vote is cast by following the instructions set out in the Notices of Meeting.

#### 2.14 Voting exclusions

Christopher Leslie and John Roberts do not make any recommendation in relation to the Internalisation and intend to abstain from voting any MQA Securities they hold or control in respect of the Internalisation Resolutions. These directors consider that it is inappropriate for them to make a recommendation, or vote, on the Internalisation because of their association with Macquarie as described in Section 3.7.



### 3. Additional matters

#### 3.1 Overview of current arrangements with Macquarie

##### (a) External management of MQA by Macquarie

The Manager, a Macquarie entity, is the manager of MARL under the Management Agreement and is also the adviser to MARIL under the Advisory Agreement. In its capacity as manager and adviser of the entities comprising MQA, the Manager is entitled to quarterly management fees consisting of base management fees (calculated as 0.85% per annum of the Market Value) and MQA Performance Fees (payable in the event that certain returns are achieved), as detailed in Section 3.2. As manager and adviser to MQA, the Manager has responsibility for the day-to-day operations of MQA.

The Manager has performed the management roles described above since the listing of MQA.

In addition to the fees described above, MQA's current management arrangements provide for additional fees for other services provided on a transactional basis by Macquarie entities if approved under MQA's related party protocols or by the MQA Boards.

The MQA Management Agreements provide for termination and/or the removal of the manager or adviser (respectively) in certain limited circumstances. These rights of termination and/or removal are summarised in Section 3.3.

Refer to <https://www.macquarie.com/mgl/com/atlasroads> and MQA's continuous and periodic disclosures available at <https://www.asx.com.au/> for further details in respect of the MQA Management Agreements.

##### (b) Security holding in MQA

As at 31 March 2018, Macquarie has no Principal Holding in MQA Securities.

Base fees and MQA Performance Fees payable to Macquarie under the existing fee arrangements may be paid in cash or at the Manager's request be applied to the subscription price for MQA Securities if approved by MQA's non-executive directors, which may, if applied to the subscription price for MQA Securities, result in Macquarie obtaining a Principal Holding in MQA Securities.

As at 31 March 2018, Macquarie has a relevant interest in 23,227,871 MQA Securities (3.47% of MQA Securities on issue) which are held by Macquarie entities for a range of different purposes and in different capacities due to the broad nature of Macquarie's operations (including funds management, hedging, custodial and fiduciary services).

##### (c) MAF2 management arrangements

MAF2, being the entity through which MQA is invested in APRR, is externally managed by Macquarie Infrastructure and Real Assets (Europe) Limited ("MIRAEL").

MIRAEL provides advisory services to MAF2 including advising on investments and divestments, borrowing and capital management, the appointment of directors to MAF2 and its subsidiaries, preparing annual reports and accounts, and advising the MAF2 Board on the carrying out of administrative functions and operations.

Following the Internalisation, MAF2 will continue to be managed by MIRAEL. MQA will become liable for annual base management fees for the provision of management services by MIRAEL to MAF2, and may also become liable for a performance fee (see Section 2.7).

##### (d) Other Macquarie involvement

Macquarie and companies within the Macquarie group undertake various transactions with, and perform various services for, MQA.

MQA utilises the services provided by MBL's foreign exchange and treasury departments from time to time on arm's length terms.

MQA currently uses MBL for transactional banking. MBL is also used from time to time to hold funds on deposit for MQA. These arrangements are provided at arm's length, on normal commercial terms and in accordance with MQA's related party policy. MQA currently has made no decision whether it will continue these arrangements in the future.

As at 31 December 2017 entities within the MQA group had \$38.0 million on deposit with MBL. For the year ended 31 December 2017, MQA received \$1,564,302 of interest income from Macquarie as a result of these banking services.

### 3. Additional matters continued

MQA appoints Macquarie entities from time to time in respect of financial, equity or debt advisory services. In March 2017 and October 2017 MQA undertook capital raisings to acquire additional interests in Dulles Greenway and APRR, for which Macquarie Capital (Australia) Limited (ACN 123 199 548) was appointed as underwriter and Lead Manager respectively. Following the Internalisation, MQA may, but has no obligation to, appoint Macquarie entities to provide any such services.

#### (e) Total fees paid to Macquarie

Total fees paid by MQA to Macquarie (which includes management fees, financial advisory fees, debt advisory fees and reimbursement of expenses paid by Macquarie entities on behalf of MQA) in the financial years ending 31 December 2016 and 31 December 2017 were \$215.7 million. Based on

MQA's Market Value as at 31 March 2018, base management fees accrued between 31 December 2017 and 31 March 2018 amount to approximately \$8.2 million.

#### 3.2 Summary of fees payable to Macquarie under the existing MQA Management Agreements and fee structure

The table below relates to the terms of the MQA Management Agreements and existing fee structure before the proposed Internalisation related amendments contemplated by the Amending Agreements. Terms used in the table below which are not defined in this Explanatory Memorandum have the meaning given to them in the MQA Management Agreements which are available at <https://www.macquarie.com/mgl/com/atlasroads>.

#### Fees under the MQA Management Agreements and existing fee structure

<b>Base management fee</b>	<p>Payable quarterly.</p> <p>Base management fee = 0.85% per annum of MQA's Market Value (by separate agreement).</p> <p>Market Value is the aggregate of the market value of MQA Securities calculated on the basis of the average number of MQA Securities on issue during the last 10 trading days of the ASX in the relevant Calendar Quarter multiplied by the volume weighted average price ("VWAP") of all MQA Securities traded on the ASX over those 10 trading days</p> <p>The Manager may, if approved by MQA's non-executive directors, apply the base fee in subscription for MQA Securities. The price of the MQA Securities in these circumstances is the VWAP of the MQA Securities traded on ASX during the last 10 trading days of the corresponding Calendar Quarter.</p>
<b>MQA Performance Fee</b>	<p>Incurred annually and payable over 3 years in 3 equal tranches, provided the performance requirements are met.</p> <p>Payable in the event that the performance of MQA Securities equals or exceeds that of the Benchmark Return (based on the S&amp;P/ASX 300 Industrials Accumulation Index) in the 12-month period ending on 30 June in each year.</p> <p>MQA Performance Fee = 15% of the amount (if any) by which MQA's performance equals or exceeds the Benchmark Return for the applicable financial year.</p> <p>Any underperformance deficit from prior periods must be made up before future MQA Performance Fees can be earned.</p> <p>The Manager may, if approved by MQA's non-executive directors, apply the MQA Performance Fee in subscription for MQA Securities. The price of the MQA Securities in these circumstances is the VWAP of the MQA Securities traded on ASX during the last 10 trading days of the applicable financial year.</p>

### 3. Additional matters continued

<b>Other services provided by Macquarie companies</b>	Additional fees will be payable for other services such as financial advisory, underwriting, broking and hedging provided from time to time on an arm's length commercial basis by Macquarie entities and as approved by the MQA Boards either generally or specifically.
<b>Apportionment</b>	There is no double counting of fees under the MQA Management Agreements whilst MARL and MARIL are stapled entities. The allocation of fees between MARL and MARIL is based on their respective net asset values (adjusted for the net market value of their investments) at the end of the period over which the applicable fees are accrued.

#### 3.3 Summary of termination rights under the existing MQA Management Agreements

The table below relates to the terms of the MQA Management Agreements before the proposed Internalisation related amendments contemplated by the Amending Agreements. Terms used in the table below which are not defined in this Explanatory Memorandum have the meaning given to them in the MQA Management Agreements which are available at <https://www.macquarie.com/mgl/com/atlasroads>.

<b>Key aspect</b>	<b>Description of rights and obligations</b>
<b>Removal by Securityholder Resolution</b>	<p>The Manager's appointment will be terminated automatically if a resolution is passed to this effect.</p> <p>The resolution must be passed by at least 50% of the total votes cast at a meeting by Securityholders entitled to vote. Macquarie and its Associates are entitled to vote on the resolution.</p> <p>Whilst MARL and MARIL are stapled entities, the Manager can only be removed in this manner if it is removed as manager and adviser to both MARL and MARIL by resolution passed by Securityholders.</p>
<b>Removal by the MQA Boards</b>	<p>The Manager can only be removed by the MQA Boards without a Securityholder vote where the Manager:</p> <ul style="list-style-type: none"> <li>– is in liquidation, receivership, administration, arrangement or compromise with creditors, or similar corporate actions;</li> <li>– ceases to carry on business;</li> <li>– ceases to hold any authorisation necessary to lawfully perform its obligations; or</li> <li>– commits a material breach of the relevant MQA Management Agreement that cannot be remedied.</li> </ul>
<b>Resignation right</b>	The Manager may resign as manager or adviser of MARL or MARIL respectively by giving the relevant company not less than 90 days' written notice.
<b>Effect of termination on claims, fees and transactions</b>	Transactions already entered into remain unaffected. Base management fees, expenses and MQA Performance Fees accrued to the date of termination remain payable to the Manager. Any other claim which the parties may have against each other remains unaffected.

### 3. Additional matters continued

Key aspect	Description of rights and obligations
<b>Obligations upon termination</b>	<p>If the Manager's appointment is terminated, all representatives of the Manager and its associates will cease work either at the date of termination or at any other time determined by MQA.</p> <p>If a new manager and adviser is appointed, the Manager must, at MQA's expense, immediately deliver to the new manager and adviser any books or records held by the Manager and do such things required to vest rights and duties in the new manager.</p> <p>Upon termination, the MQA Boards may direct the Manager to deal with ownership or control of MQA's assets, and do anything necessary to bring the Manager's appointment to an end and assist in the appointment of a replacement manager (if applicable).</p>

#### 3.4 Summary of material agreements

Summarised below are the material agreements which Macquarie and MQA have entered into to give effect to the Internalisation. Further detail is included in Section 3.5.

**(a) Management Agreement Amending**

**Agreement:** this agreement amends and restates the existing Management Agreement with MARL to effect the internalisation of the management of MARL, including the termination of the existing Management Agreement.

**(b) Advisory Agreement Amending Agreement:**

this agreement amends and restates the existing Advisory Agreement with MARIL to effect the internalisation of the management of MARIL, including the termination of the existing Advisory Agreement.

**(c) MARL Transition Services Agreement:** this agreement documents Macquarie's agreement to provide specific transition services to MARL.

**(d) MARIL Transition Services Agreement:** this agreement documents Macquarie's agreement to provide specific transition services to MARIL.

#### 3.5 MQA Management Agreement Amending Agreements

As stated above, MQA and the Manager have entered into the Management Agreement Amending Agreement and Advisory Agreement Amending Agreement on equivalent terms to give effect to the Internalisation.

The Management Agreement and Advisory Agreement prior to amendment in relation to the management arrangements which are currently conducted by the Manager are summarised on MQA's corporate website at <https://www.macquarie.com/mgl/com/atlasroads/about/legal-framework>.

A summary of the key terms of the MQA Management Agreements as amended and restated by the Amending Agreements for the purposes of the Internalisation is set out on the following pages.

### 3. Additional matters

#### continued

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#### Summary of material terms

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<b>Parties</b>	<ul style="list-style-type: none"> <li>– <b>Advisory Agreement Amending Agreement:</b> Macquarie Atlas Roads International Limited (Registration No. 43828) and Macquarie Fund Advisers Pty Limited (ACN 127 735 960).</li> <li>– <b>Management Agreement Amending Agreement:</b> Macquarie Atlas Roads Limited (ACN 141 075 201) and Macquarie Fund Advisers Pty Limited (ACN 127 735 960).</li> </ul>
<b>Background</b>	<p>The agreements provide for the continued performance by the Manager of the management services substantially as they have been provided in the past on the basis that these management services will cease to be provided, and the agreements will terminate, by no later than the date of the AGM 2019. Upon termination, the Manager will hand-over the management of the business to MQA, which will then manage its own operations going forward, independently of and separately from Macquarie.</p>
<b>Conditions</b>	<p>The amendments to the MQA Management Agreements are subject to:</p> <ul style="list-style-type: none"> <li>– Security holders passing the Internalisation Resolutions; and</li> <li>– the Manager and MQA having executed the Transition Services Agreements.</li> </ul>
<b>Employees</b>	<p>The Manager must use its best efforts to maintain the continuity of service to MQA of senior management personnel agreed between the Manager and MQA as well as any staff working for MQA, including the Chief Executive Officer, Chief Financial Officer and Company Secretary (except for such persons who become employed by MQA or are replaced or recalled by the Manager at MQA's request).</p> <p>If any senior management personnel or staff working for MQA terminate their employment with the Manager prior to termination of the MQA Management Agreements, the Manager must use its best efforts to find suitable replacements of commensurate skill and experience (except where those personnel or staff have terminated their employment with the Manager to become employed by MQA).</p>
<b>General obligations</b>	<p>The parties agree to cooperate with each other and do all things reasonably necessary to equip and enable MQA to transition to internal management and to manage its own operations, and to facilitate the termination of the MQA Management Agreements if and when the MQA Boards determine that it is appropriate to do so.</p> <p>The Manager's obligations include:</p> <ul style="list-style-type: none"> <li>– providing MQA with access to MQA information and records held by the Manager;</li> <li>– assisting MQA with the transfer of MQA information and records;</li> <li>– promptly responding to requests for information reasonably made by MQA in connection with MQA employees becoming familiar with the business of MQA.</li> </ul> <p>The Manager is not required to procure a new premises for MQA or advance or facilitate the advancement of capital to MQA in connection with MQA's transition to internal management.</p> <p>MQA agrees to do all things reasonably necessary to enable the Manager to fulfil its obligations under the MQA Management Agreements and to ensure that it retains day to day control over MQA's operations.</p>

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### 3. Additional matters

#### continued

<b>Use of the Macquarie name</b>	Following termination of the MQA Management Agreements, MQA must cease to use any trading name, business name, company name, logo, mark or domain name that contains 'Macquarie' or 'MQA', unless otherwise agreed between MQA and a Macquarie group company.
<b>Management fees</b>	<ul style="list-style-type: none"> <li>– The Manager will continue to receive a base fee at the rate of 0.85% per annum of MQA's Market Value until 15 May 2019.</li> <li>– Should MQA issue any securities on or after 30 June 2018, such securities will not be factored into the calculation of the base management fees payable after that date.</li> <li>– Should the MQA Management Agreements be terminated earlier than 15 May 2019, the Manager will remain entitled to the base management fees it would have been entitled to had the MQA Management Agreements terminated on 15 May 2019, unless MQA has terminated for cause.</li> <li>– The Manager will receive a final MQA Performance Fee comprising of: <ul style="list-style-type: none"> <li>• a final MQA Performance Fee in respect of the year ending on 30 June 2018 if the performance fee conditions in the MQA Management Agreements are satisfied on that date. In that case, all three instalments of the 2018 performance fee will be payable immediately;</li> <li>• the final instalment of the 2016 MQA Performance Fee and the second instalment of the 2017 MQA Performance Fee may be payable on 30 June 2018 if the conditions for those instalments specified in the MQA Management Agreements are satisfied on that date; and</li> <li>• the final instalment of the 2017 MQA Performance Fee will become payable on 1 July 2018 notwithstanding that the performance condition for that instalment may not be satisfied.</li> </ul> </li> </ul> <p>MQA must pay these fees by 31 August 2018.</p> <ul style="list-style-type: none"> <li>– The base management fees and MQA Performance Fees may be payable in cash, or at the Manager's request if approved by MQA's non-executive directors, applied to the subscription price for MQA Securities.</li> </ul>
<b>Term</b>	Unless terminated early as contemplated below, the MQA Management Agreements terminate on 15 May 2019.
<b>Early termination by MQA</b>	<p>MQA may at any time terminate the MQA Management Agreements for convenience prior to completion of the Internalisation by giving the Manager not less than 7 days written notice, provided that MQA pays to Macquarie an amount equal to the remaining base management fees that would have been payable between the date of termination and 15 May 2019.</p> <p>MQA may also terminate the MQA Management Agreements with immediate effect for cause, as described in Section 3.3, in which case the Manager will only be entitled to the pro-rata amount of the base management fees which have accrued in the Calendar Quarter during which the MQA Management Agreements are terminated.</p>

### 3. Additional matters

#### continued

<b>Termination by the Manager</b>	<p>The Manager may terminate the MQA Management Agreements by notice to MQA if:</p> <ul style="list-style-type: none"> <li>– A person acquires: <ul style="list-style-type: none"> <li>• the whole or a substantial part of MQA's business or assets;</li> <li>• control of MQA within the meaning of section 50AA of the Corporations Act; or</li> <li>• a relevant interest in, or voting power of, more than 50% of MQA Securities;</li> </ul> </li> <li>– MQA is placed in liquidation, receivership, administration, arrangement or compromise with creditors, or similar corporate actions;</li> <li>– MQA commits a material breach of the MQA Management Agreement which is not capable of remedy; or</li> <li>– MQA commits a material breach of the MQA Management Agreement which is capable of remedy, but is not remedied within 30 days of request by the Manager.</li> </ul> <p>In each case, Macquarie would be entitled to the amount equal to the remaining base management fees between the date of termination and 15 May 2019.</p>
<b>Effect of termination</b>	<p>If the Manager's appointment is terminated, all representatives of the Manager and its associates will cease work at the date of termination. The Manager must, at MQA's expense, promptly deliver to MQA any books or records held by the Manager and do such things required to vest rights and duties in MQA.</p> <p>Upon termination, the MQA Boards may direct the Manager to deal with ownership or control of MQA's assets, and do anything reasonably necessary to bring the appointment of the Manager to an end.</p>
<b>Removal of the Manager</b>	References to removal and replacement of the Manager are deleted.
<b>Warranties</b>	The parties provide the usual mutual warranties to each other in relation to their status, capacity, authority and power.



## 3. Additional matters

### continued

#### 3.6 Transition Services Agreements

##### Summary of material terms

<b>Parties</b>	<ul style="list-style-type: none"> <li>– <b>MARIL Transition Services Agreement:</b> Macquarie Atlas Roads International Limited (Registration No. 43828) and Macquarie Fund Advisers Pty Limited (ACN 127 735 960).</li> <li>– <b>MARL Transition Services Agreement:</b> Macquarie Atlas Roads Limited (ACN 141 075 201) and Macquarie Fund Advisers Pty Limited (ACN 127 735 960).</li> </ul>
<b>Background</b>	The purpose of the Transition Services Agreements is to document the agreement between the parties upon which Macquarie will provide specific transition services to MQA for the period between termination of the MQA Management Agreements and 31 December 2019 to enable MQA to operate independently from Macquarie.
<b>Conditions</b>	<p>Provision of the transition services is conditional upon:</p> <ul style="list-style-type: none"> <li>– Securityholders passing the Internalisation Resolutions;</li> <li>– the Manager and MQA executing the Amending Agreements; and</li> <li>– the termination of the MQA Management Agreements on 15 May 2019 (in the ordinary course) or by MQA for convenience. This condition will not be satisfied if the MQA Management Agreements were terminated by MQA for cause.</li> </ul>
<b>Consideration</b>	<p>MQA will pay the Manager a fee of \$750,000 per month during the period from 16 May 2019 until 31 December 2019 in exchange for the transition services.</p> <p>There is no double counting of fees under the Transition Services Agreements whilst MARL and MARIL are stapled entities. The allocation of fees between MARL and MARIL is based on their respective net asset values (adjusted for the net market value of their investments) at the end of the period over which the applicable fees are accrued.</p>
<b>Transition Services</b>	<p>The Manager must provide the following services to MQA from termination of the MQA Management Agreements until 31 December 2019:</p> <ul style="list-style-type: none"> <li>– <b>employee transfer:</b> assistance with the transfer of employees who wish to accept an offer of employment from MQA and whose transfer is approved by the MQA Boards;</li> <li>– <b>Luxembourg services:</b> providing the services performed by Macquarie's Luxembourg operations as at the date of the Transition Services Agreements in relation to the administration of certain MQA offshore entities;</li> <li>– <b>Directors:</b> Non-Executive Director Christopher Leslie continuing to serve on the MARIL Board and/or the Dulles Greenway Board, if requested by MQA; and</li> <li>– <b>senior management:</b> making available and facilitating access to certain specified senior management personnel to assist in the management of ongoing operations, stakeholder issues and the planning and implementation of strategies in relation to particular assets, (the "<b>Additional Transition Services</b>").</li> </ul>
<b>Termination</b>	Unless terminated early as contemplated below, the Transition Services Agreements terminate on 31 December 2019.



### 3. Additional matters

#### continued

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#### Early termination by MQA

MQA may at any time terminate the Transition Services Agreements prior to 31 December 2019 by giving the Manager not less than 7 days written notice, provided that MQA pays to Macquarie an amount equal to the remaining transition fees that would have been payable between 16 May 2019 and 31 December 2019.

MQA may also terminate the Transition Services Agreements with immediate effect if the Manager:

- is in liquidation, receivership, administration, arrangement or compromise with creditors, or similar corporate actions;
- ceases to carry on business;
- ceases to hold any authorisation necessary to lawfully perform its obligations; or
- commits a material breach of the Transition Services Agreement that cannot be remedied.

In this case, the Manager will only be entitled to the pro-rata amount of remaining transition fees accrued from 16 May 2019 until the calendar month during which the Transition Services Agreements are terminated.

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#### Early termination by the Manager

The Manager may terminate the Transition Services Agreements by notice to MQA if:

- A person acquires:
  - the whole or a substantial part of MQA's business or assets;
  - control of MQA within the meaning of section 50AA of the Corporations Act; or
  - a relevant interest in, or voting power of, more than 50% of MQA Securities;
- MQA is in liquidation, receivership, administration, arrangement or compromise with creditors, or similar corporate actions;
- MQA commits a material breach of the Transition Services Agreement which is not capable of remedy;
- MQA commits a material breach of the Transition Services Agreement which is capable of remedy, but is not remedied within 30 days of request by the Manager; or
- the Manager has terminated the MQA Management Agreements for any of the above reasons.

In each case, Macquarie would be entitled to the amount equal to the remaining transition fees between 16 May 2019 and 31 December 2019.

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#### Warranties

The parties provide the usual mutual warranties to each other in relation to their status, capacity, authority and power.

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### 3. Additional matters

#### continued

<b>Effect of termination</b>	<p>If the Transition Services Agreements are terminated, all representatives of the Manager and its associates will cease work at the date of termination. The Manager must, at MQA's expense, promptly deliver to MQA any books or records held by the Manager.</p> <p>Upon termination, the MQA Boards may give directions to the Manager to undertake any actions reasonably necessary to bring the Manager's appointment to an end.</p>
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#### 3.7 Interests of MQA directors

The following table lists the MQA Boards' assessment of the independence of the directors of MQA. For each of those directors who are assessed as being independent according to the independence criteria set out in Annexure 2, it contains the quantum of fees or other financial benefits that the director received from a Macquarie entity in the 12 months to 31 December 2017.

In addition to the amounts set out in the table below, members of the IBCs have been remunerated for their additional duties in performing those roles (see Section 3.8 below).

MQA directors may also have an indirect interest in the outcome of the proposal through their holding of any MQA Securities, the purchase of which has been funded personally by each director.

Director	Independence assessment	Status	Interests in MQA Securities as at 31 December 2017
Nora Scheinkestel (MARL Chairperson and MARIL director)	<p>Dr Scheinkestel's director fees are paid by MQA.</p> <p>Dr Scheinkestel has not received any financial benefit from Macquarie in the last 12 months.</p> <p>The MQA Boards consider that Dr Scheinkestel satisfies the independence criteria set out in Annexure 2.</p>	Independent	78,431
Richard England (MARL director)	<p>Mr England's director fees are paid by MQA.</p> <p>Mr England has not received any financial benefit from Macquarie in the last 12 months.</p> <p>The MQA Boards consider that Mr England satisfies the independence criteria set out in Annexure 2.</p>	Independent	49,670
Debra Goodin (MARL director)	<p>Ms Goodin's director fees are paid by MQA.</p> <p>Ms Goodin has not received any financial benefit from Macquarie in the last 12 months.</p> <p>The MQA Boards consider that Ms Goodin satisfies the independence criteria set out in Annexure 2.</p>	Independent	5,671

### 3. Additional matters

#### continued

Director	Independence assessment	Status	Interests in MQA Securities as at 31 December 2017
John Roberts (MARL director)	<p>Mr Roberts is a former employee and currently a consultant to Macquarie.</p> <p>Mr Roberts is the Non-Executive Chairman of Macquarie Infrastructure and Real Assets, a division of Macquarie.</p> <p>Until 17 April 2015 Mr Roberts' director fees were paid by Macquarie. Mr Roberts' director fees have since been paid by MQA to align Mr Roberts' remuneration with MQA's interests.</p> <p>Mr Roberts is not a Macquarie nominee but is not considered independent by the MQA Boards.</p>	Not independent	53,073
Jeffrey Conyers (MARIL Chairperson)	<p>Mr Conyers' director fees are paid by MQA.</p> <p>Mr Conyers has not received any financial benefit from Macquarie in the last 12 months.</p> <p>Mr Conyers has previously served on the boards of Map Airports International Limited and Intoll International Limited, parts of the previously Macquarie-managed ASX listed vehicles Map Group and Intoll Group respectively.</p> <p>Despite these interests, the MQA Boards consider that Mr Conyers satisfies the independence criteria set out in Annexure 2.</p>	Independent	40,000
James Keyes (MARIL director)	<p>Mr Keyes' director fees are paid by MQA.</p> <p>Mr Keyes has not received any financial benefit from Macquarie in the last 12 months.</p> <p>The MQA Boards consider that Mr Keyes satisfies the independence criteria set out in Annexure 2.</p>	Independent	5,000
Derek Stapley (MARIL director)	<p>Mr Stapley's director fees are paid by MQA.</p> <p>Mr Stapley has not received any financial benefit from Macquarie in the last 12 months.</p> <p>The MQA Boards consider that Mr Stapley satisfies the independence criteria set out in Annexure 2.</p>	Independent	-
Christopher Leslie (MARIL director)	<p>Mr Leslie is an employee of Macquarie.</p> <p>Mr Leslie receives director fees paid by MQA to align Mr Leslie's remuneration with MQA's interests. Mr Leslie is not a Macquarie nominee but he is not considered independent by the MQA Boards.</p>	Not independent	-

## 3. Additional matters

### continued

#### 3.8 Payment of fees to Independent Directors

Additional fees were paid to the members of the IBCs in recognition of the additional time and duties that they have been required to undertake in relation to the consideration of the Internalisation. These services have included undertaking activities generally performed by management, including spending time evaluating the Internalisation, reviewing and negotiating the terms of the Internalisation with Macquarie, and attending IBC meetings.

The fees payable in respect of these additional services performed by the IBCs equate at 31 March 2018 to a total of approximately \$64,000.<sup>16</sup> The Independent Directors' entitlement to these fees is not contingent on the Internalisation proceeding.

#### 3.9 Payments and other benefits to directors, secretaries, executive officers or related bodies corporate

Other than as set out in Section 3.8, no payment or other benefit is proposed to be made or given in connection with, or conditional upon, the Internalisation, to any director, secretary or executive officer of MQA.

Sections 2.4 and 3.5 describe the amounts payable to Macquarie. No payment or other benefit is proposed to be given to any related body corporate of MQA in connection with, or conditional upon, the Internalisation.

#### 3.10 No other information known to MQA

Other than as set out in this Explanatory Memorandum (including in the Independent Expert's Report), there is no other information known to MQA or any of its directors that is reasonably required by Securityholders in order to decide whether it is in the best interests of Securityholders to pass the Internalisation Resolutions.

#### 3.11 Consents and disclaimers

##### (a) Independent Expert

Grant Samuel & Associates Pty Limited has given, and before the lodgement of this Explanatory Memorandum with ASX, has not withdrawn, its consent to being named as Independent Expert in this Explanatory Memorandum and to the inclusion of its Independent Expert's Report in the form and context in which it appears in Annexure 1. The interests of the Independent Expert are disclosed in the Independent Expert's Report.

##### (b) Other parties

The persons performing a function in a professional or advisory capacity in connection with the Internalisation and the preparation of this Explanatory Memorandum on behalf MQA are set out below. Each of them will be entitled to receive professional fees charged in accordance with their normal basis of charging.

The following parties have given, and before the lodgement of this Explanatory Memorandum with ASIC, have not withdrawn, their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- Adara Partners Pty Limited as financial adviser to the IBCs; and
- King & Wood Mallesons as Australian legal adviser to the IBCs

Each party referred to in this section:

- has not made any statement in, or accompanying, this Explanatory Memorandum, or any statement on which a statement in, or accompanying, this Explanatory Memorandum is based, other than the statements and references included in, or accompanying, this Explanatory Memorandum with the consent of that party;

16. The Independent Director fees are part of the ramp-up and one-off transaction costs (expected to be approximately \$12 million as at the date of this Explanatory Memorandum) associated with the Internalisation. The Independent Director fees include US dollar denominated amounts converted at a USD/AUD exchange rate of \$1.30 as at 31 March 2018.

### 3. Additional matters

#### continued

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- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum, other than with respect to the statements and references included in, or accompanying, this Explanatory Memorandum with the consent of that party; and
- does not authorise the issue or despatch of this Explanatory Memorandum.

#### 3.12 Governing law

This Explanatory Memorandum is governed by the law applicable in New South Wales, Australia.

## 4. Glossary

<b>\$, A\$, AUD or cents</b>	Australian Dollars or cents
<b>Adara Partners</b>	Adara Partners (Australia) Pty Limited (ACN 601 898 006), financial adviser to the IBCs
<b>Advisory Agreement</b>	The advisory agreement dated 2 February 2010 between MARIL and the Manager, as amended from time to time
<b>Advisory Agreement Amending Agreement</b>	The amending agreement to the Advisory Agreement entered into between MARIL and the Manager
<b>Amending Agreements</b>	The Advisory Agreement Amending Agreement and the Management Agreement Amending Agreement
<b>ASIC</b>	Australian Securities and Investments Commission
<b>Associate</b>	Has the meaning given in sections 10 to 17 of the Corporations Act, and includes any Macquarie company
<b>ASX</b>	ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires, or any successor
<b>Companies Act</b>	Companies Act 1981 (Bermuda), as amended from time to time
<b>Corporations Act</b>	Corporations Act 2001 (Cth), as amended from time to time and as modified by any ASIC class order or instrument applicable to MQA
<b>Explanatory Memorandum</b>	This explanatory memorandum prepared by MQA and despatched to Securityholders (including any supplement to it or replacement of it)
<b>IBCs or Independent Board Committees</b>	The independent board committees of each of MARL and MARIL, comprised of the Independent Directors
<b>Independent Directors</b>	The independent directors of MARL and MARIL. MQA applies the standards of independence which have been adopted by MQA and are described in Annexure 2
<b>Independent Expert</b>	Grant Samuel & Associates Pty Limited (ACN 050 036 372)
<b>Independent Expert's Report</b>	The report prepared by the Independent Expert to be provided to the IBCs and Securityholders providing an opinion on whether the Internalisation is fair and reasonable to, and in the best interests of, Securityholders
<b>Internalisation</b>	The proposed transactions pursuant to which the management of MQA will be internalised as described in this Explanatory Memorandum, including the termination of the MQA Management Agreements and the provision of transition services under the Transition Services Agreements
<b>Internalisation Resolutions</b>	The resolutions to be put to Securityholders at the Meetings as described in Section 2.12 and set out in the Notices of Meeting
<b>King &amp; Wood Mallesons</b>	King & Wood Mallesons, Australian legal adviser to the IBC
<b>Listing Rules</b>	The listing rules of ASX, as amended, varied or waived (whether in respect of MQA or generally) from time to time
<b>Macquarie</b>	Macquarie Group Limited (ABN 94 122 169 279) and each of its related bodies corporate and, where the context requires, includes a reference to Macquarie Group Limited acting through one or more of its wholly owned subsidiaries

## 4. Glossary

### continued

<b>Macquarie Information</b>	The information in relation to Macquarie and its Associates that has been prepared by Macquarie and provided to MQA for inclusion in this Explanatory Memorandum being: <ul style="list-style-type: none"> <li>– the definition of “Principal Holding”; and</li> <li>– the statements in this Explanatory Memorandum relating to the Principal Holding and the quantum of Macquarie’s relevant interest in MQA Securities</li> </ul>
<b>MAF Group</b>	The Macquarie Autoroutes de France group, including MAF2
<b>MAF2</b>	Macquarie Autoroutes de France 2 SA
<b>Management Agreement</b>	The Management Agreement dated 2 February 2010 between MARL and the Manager, as amended from time to time
<b>Management Agreement Amending Agreement</b>	The amending agreement to the Management Agreement entered into between MARL and the Manager
<b>Manager</b>	Macquarie Fund Advisers Pty Limited (ACN 127 735 960) which operates as part of the Macquarie Infrastructure and Real Assets division of Macquarie
<b>MARIL</b>	Macquarie Atlas Roads International Limited (Registration No. 43828)
<b>MARIL Transition Services Agreement</b>	The transition services agreement entered into between MARIL and the Manager under which the Manager will provide transition services to MARIL
<b>Market Value</b>	Market Value is the aggregate of the market value of the MQA Securities calculated on the basis of the average number of MQA Securities on issue during the last 10 trading days of the ASX in the relevant calendar quarter multiplied by the VWAP of all MQA Securities traded on the ASX over those 10 trading days (excluding any MQA Securities issued on or after 30 June 2018)
<b>MARL</b>	Macquarie Atlas Roads Limited (ACN 141 075 201)
<b>MARL Transition Services Agreement</b>	The transition services agreement entered into between MARL and the Manager under which Macquarie will provide transition services to MARL
<b>MBL</b>	Macquarie Bank Limited (ABN 46 008 583 542)
<b>Meetings</b>	The annual general meetings of MARL and MARIL, which will be held concurrently, and at which the Internalisation Resolutions will be considered
<b>MQA</b>	Macquarie Atlas Roads, being collectively or individually (as the context requires), MARL, MARIL and their subsidiaries and associated entities
<b>MQA Boards</b>	The board of directors of each of MARL and MARIL
<b>MQA Management Agreements</b>	The Management Agreement and the Advisory Agreement
<b>MQA Performance Fee</b>	The Performance Fee as defined in the MQA Management Agreements.
<b>MQA Securities</b>	MARL and MARIL ordinary shares which are stapled together and traded as a single security on ASX
<b>Notices of Meeting</b>	The MQA Notices of Meeting dated 9 April 2018



## 4. Glossary

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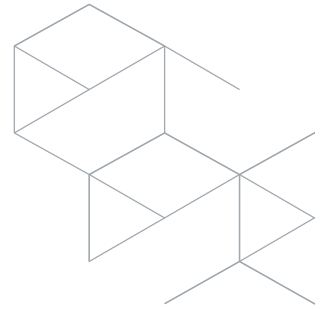
<b>Principal Holding</b>	MQA Securities held by entities operating as part of the Macquarie Infrastructure and Real Assets division of Macquarie in respect of which the Macquarie Infrastructure and Real Assets business division of Macquarie is able to control the voting rights attached to those MQA Securities
<b>Record Date</b>	7.00pm Sydney time on Sunday, 13 May 2018, being the date and time for determining which Securityholders are entitled to vote at the Meetings
<b>Registry</b>	Computershare Investor Services Pty Limited (ACN 078 279 277)
<b>Securityholder</b>	A registered holder of MQA Securities
<b>Sydney time</b>	Australian Eastern Standard Time
<b>Transition Services Agreements</b>	The MARL Transition Services Agreement and the MARIL Transition Services Agreement
<b>VWAP</b>	Volume weighted average sale price of MQA Securities traded on ASX during the relevant period or on the relevant days, rounded down to the nearest cent

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## Annexure 1 - Independent Expert's Report

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Please see the following page



9 April 2018

The Independent Directors  
Macquarie Atlas Roads Limited  
Level 7  
50 Martin Place  
Sydney NSW 2000  
Australia

The Independent Directors  
Macquarie Atlas Roads International Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

Dear Independent Directors

## Internalisation Proposal

### 1 Introduction

Macquarie Atlas Roads Group (“MQA”) is a dual stapled group listed on the Australian Securities Exchange (“ASX”) with investments in toll roads in Europe and the United States. It currently owns interests in four assets: APRR (25%), ADELAC (25.03%), Dulles Greenway (100%<sup>1</sup>) and Warnow Tunnel (70%). MQA comprises Australian company Macquarie Atlas Roads Limited (“MARL”) and Bermudan mutual fund company Macquarie Atlas Roads International Limited (“MARIL”).

Macquarie Fund Advisers Pty Limited (“MQA Manager”), a wholly owned subsidiary of Macquarie Group Limited (“Macquarie”), is the manager of MARL and the adviser for MARIL under separate agreements entered into at establishment of MQA (“the MQA Management Agreements”).

On 9 April 2018, the directors of MARL and MARIL who are not associated with Macquarie (“the independent directors”) announced that agreement had been reached with Macquarie on the terms under which the MQA Management Agreements will be terminated (“the Proposal”).

The key terms of the Proposal are set out in full in the Notices of Meetings and Explanatory Memorandum (“Explanatory Memorandum”) to be sent to MQA securityholders. In summary, the key terms are:

- termination will occur on 15 May 2019 (being 12 months from MQA’s annual general meeting on 15 May 2018), unless MQA elects to terminate at an earlier date;
- the fee arrangements with Macquarie will be amended as follows:

#### **Base Fees<sup>2</sup>**

Base Fees are to be paid at the current rate of 0.85% of Market Value<sup>2</sup> per annum in accordance with the existing fee structure until 15 May 2019<sup>3</sup>. If MQA terminates the contracts at an earlier date, the fees from that date until 15 May 2019 (based on the then Market Value<sup>2</sup>) will be payable upon termination.

#### **Performance Fees<sup>2</sup>**

Performance Fees are payable in three equal annual instalments from calculation if performance criteria are met (refer Section 3.2 of the full report for details). Set out below is a summary of the Performance Fees that have been earned, the components that are currently deferred and the changes resulting from the Proposal:

<sup>1</sup> Estimated economic interest not equity interest.

<sup>2</sup> As defined under the MQA Management Agreements.

<sup>3</sup> Any securities issued by MQA after 30 June 2018 will be ignored in the Base Fee calculation.



**MQA – DEFERRED PERFORMANCE FEES**

YEAR END 30 JUNE	TOTAL POSSIBLE FEE	INSTALMENT / AMOUNT	CURRENT STATUS	STATUS UNDER THE PROPOSAL
2016	\$134.1 million	First \$44.7 million	Paid 30 June 2016	
		Second \$44.7 million	Paid 30 June 2017	
		Third \$44.7 million	Potentially due at 30 June 2018 <sup>4</sup>	No change
2017	\$23.9 million	First \$8.0 million	Paid 30 June 2017	
		Second \$8.0 million	Potentially due on 30 June 2018 <sup>4</sup>	No change
		Third \$8.0 million	Potentially due on 30 June 2019 <sup>4</sup>	To be paid after 30 June 2018 (no performance testing)
2018	TBD <sup>5</sup>	First TBD	Potentially due on 30 June 2018 <sup>4</sup>	No change
		Second TBD	Potentially due on 30 June 2019 <sup>4</sup>	To be paid after 30 June 2018 (no performance testing)
		Third TBD	Potentially due on 30 June 2020 <sup>4</sup>	To be paid after 30 June 2018 (no performance testing)

Source: MQA

The third instalment of the Performance Fee for the year ended 30 June 2016 (“the 2016 Performance Fee”) and the second instalment of the Performance Fee for the year ended 30 June 2017 (“the 2017 Performance Fee”) will be paid in the ordinary course in accordance with the MQA Management Agreements (i.e. subject to their respective performance hurdles on 30 June 2018).

A final Performance Fee will be calculated for the year ending 30 June 2018 (“the 2018 Performance Fee”) and, if earned, will be paid in full at that time, together with the third instalment of the 2017 Performance Fee. In effect, none of the second and third instalments of the 2018 Performance Fee or the third instalment of the 2017 Performance Fee will be deferred or subject to performance testing.

The fees are payable in cash or can be applied to subscribe for MQA stapled securities as agreed between MQA and Macquarie;

- Macquarie is to use best efforts to maintain the continuity of service until the termination date (or such earlier date agreed by MQA and Macquarie) of:
    - James Hooke as Chief Executive Officer (“CEO”) of MQA; and
    - any other senior management personnel presently providing services to MQA.
- If any of these persons cease employment with Macquarie, Macquarie is to provide suitable replacement personnel;
- Macquarie will provide specified transition services from the date of termination until 31 December 2019 for a fee of \$750,000 per month (payable from 16 May 2019 until 31 December 2019, regardless of any early termination);
  - Macquarie may terminate the MQA Management Agreements with immediate effect on written notice in certain circumstances (including a change of control event for MQA), in which case it will be entitled to an amount equal to Base Fees between termination and 15 May 2019; and
  - following termination of the MQA Management Agreements, MQA must cease use of any name, logo, mark or domain name that contains “Macquarie” or “MQA”.<sup>6</sup>

<sup>4</sup> Subject to achieving respective performance hurdles under the MQA Management Agreements.

<sup>5</sup> TBD = to be determined (at 30 June 2018)

<sup>6</sup> At the securityholder meetings at which the resolution regarding the Proposal will be considered, MQA is also seeking securityholder approvals to change its name to “Atlas Arteria”. However, the Proposal is not subject to the approval of the change of name resolutions.



The arrangements relating to the management by Macquarie of the downstream investment vehicles through which MQA holds its interests in APRR and ADELAC will remain in place. The fees payable to Macquarie for this role, which are not currently incurred in respect of MQA's investment while MQA is managed by Macquarie, will become payable from 16 May 2019. Macquarie and MQA (once it has employed its own CEO) have agreed to work with the other parties to see if they can agree mutually acceptable alternative arrangements.

The Proposal is subject to the approval of MQA securityholders. Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act, 2001 or the ASX Listing Rules, the independent directors have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders and to state reasons for that opinion. A copy of this report is to accompany the Explanatory Memorandum to be sent to securityholders by MQA.

## 2 Opinion

**In Grant Samuel's opinion, the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders.**

## 3 Summary of Key Conclusions

MQA was established as a new listed entity in January 2010 following a restructuring of Macquarie Infrastructure Group. At that time, MQA held a portfolio of assets that faced a number of challenges and the continuation of external management by Macquarie was considered, on balance, to be the most effective means of meeting those challenges and managing MQA through a process of asset stabilisation and portfolio restructuring. Since that time, equity market investors have made increasingly clear a preference for internally managed investment vehicles, particularly in the infrastructure and property sectors, and MQA has now evolved to the point where it makes sense to transition to internal management. Accordingly, the independent directors initiated discussions with Macquarie to seek to agree a basis on which management could be brought "in house".

The Proposal that has been developed enables that transition to occur in an orderly, co-operative manner and is expected to deliver net savings in corporate overheads in the order of \$4-11 million per annum (based solely on savings in Base Fees). The incremental one-off costs of implementing the Proposal (relative to the status quo) amount to approximately \$18-25 million<sup>7</sup>.

On this basis, securityholders are better off from a financial perspective (even before allowing for any performance fee savings). The uplift in earnings could have a positive impact on the MQA security price (even after allowing for costs), albeit minor. Even if the short term financial benefits were less positive, the operational and strategic advantages would still warrant implementing internalisation. The benefits for MQA securityholders include:

- increased predictability of earnings (as current management fees are based on MQA's market capitalisation);
- elimination of performance fees at the MQA level which further improves the predictability of earnings (albeit, potentially, partly offset by the commencement of a performance fee relating to the investment in APRR and ADELAC);
- better alignment of management interests with those of investors and direct accountability solely to those investors;

<sup>7</sup> Includes transition (ramp up) and transaction costs as estimated by the independent directors (\$12 million), additional transition services from 16 May 2018 to 31 December 2018 (\$5.6 million) plus duplicated overhead costs post handover (approximately \$4-8 million). See Section 4.3.6(i) of the full report for details.



- direct control of employee remuneration and other overhead costs;
- elimination of potential conflicts of interest between the manager and securityholders (whether real or perceived);
- removal of the discount that may be applied by some analysts and investors to externally managed entities;
- expansion of the pool of potential investors (as some institutional investors are prohibited from investing in externally managed vehicles); and
- increased potential for a change of control event.

There are some disadvantages, costs and risks, primarily:

- the risk of poor execution in establishing the new organisation (e.g. selection of CEO and senior management);
- potential for overhead costs to exceed the current estimates of the independent directors; and
- the loss of access to the Macquarie pool of executive resources and its expertise in infrastructure.

The primary alternative for internalisation would be unilateral termination of the MQA Management Agreements. This is a cheaper but much riskier path. The financial and operational benefits of both alternatives are the same but the Proposal is expected to incur additional one-off costs of \$6-17 million compared to unilateral termination (depending on the handover date)<sup>8</sup>.

In Grant Samuel's view, this cost (which is, at most, 2.5 cents per security or about 0.4% of the market value of a security) is justified by the benefits of a co-operative handover program and the avoidance of risks and disadvantages inherent in unilateral termination, including:

- having full co-operation of the existing Macquarie team continue to manage the business while MQA's new team is put in place and "gets up to speed";
- continuation of certain administration services relating to the investment in APRR;
- extended availability from Macquarie of certain key members of the senior management team currently servicing MQA and other administration services (until 31 December 2019);
- a longer period to identify and secure new management;
- transfer of corporate knowledge; and
- eliminating the risk of early resignation by Macquarie.

## 4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual MQA securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Explanatory Memorandum issued by MQA in relation to the Proposal.

Grant Samuel has not been engaged to provide a recommendation to securityholders in relation to the Proposal, the responsibility for which lies with the independent directors. In any event, the decision whether to vote for or against the Proposal is a matter for individual securityholders based on each securityholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile,

<sup>8</sup> Includes additional Base Fees (\$16-17 million) plus additional transition services (\$5.6 million) less savings in MAF2 base fees (\$5.95 million) and standalone overhead costs (\$nil-10 million). See Section 4.3.6(ii) of the full report for details.

## GRANT SAMUEL



investment strategy and portfolio structure. If in any doubt as to the action they should take in relation to the Proposal, securityholders should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in MQA. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Proposal. Securityholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

*Grant Samuel & Associates*



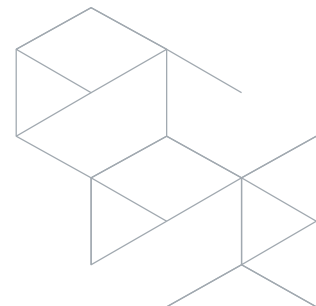
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# Macquarie Atlas Roads

FINANCIAL SERVICES GUIDE  
AND  
INDEPENDENT EXPERT'S REPORT  
IN RELATION TO THE PROPOSAL TO INTERNALISE MANAGEMENT

GRANT SAMUEL & ASSOCIATES PTY LIMITED  
ABN 28 050 036 372

9 APRIL 2018



## FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Macquarie Atlas Roads Limited and Macquarie Atlas Road International Limited (together, Macquarie Atlas Roads Group ("MQA")) in relation to proposal to a proposal to internalise management ("the MQA Report"), Grant Samuel will receive a fixed fee of \$250,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 5.3 of the MQA Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the MQA Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 5.3 of the MQA Report:

*"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with MQA or Macquarie or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.*

*Grant Samuel commenced analysis for the purposes of this report in March 2018 prior to the announcement of the Proposal. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Proposal.*

*Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*

*Grant Samuel will receive a fixed fee of \$250,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*

*Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the MQA Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the MQA Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



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## 1 Details of the Proposal

Macquarie Atlas Roads Group (“MQA”) is a stapled group listed on the Australian Securities Exchange (“ASX”) with investments in toll roads in Europe and the United States. It currently owns interests in four assets: APRR (25%), ADELAC (25.03%), Dulles Greenway (100%<sup>1</sup>) and Warnow Tunnel (70%). APRR operates a 2,323<sup>2</sup> kilometre motorway network in eastern France and is MQA’s largest asset. Dulles Greenway is a 22 kilometre toll road carrying traffic into the greater Washington D.C. region of the United States.

MQA comprises Australian company Macquarie Atlas Roads Limited (“MARL”) and Bermudan mutual fund company Macquarie Atlas Roads International Limited (“MARIL”). Macquarie Fund Advisers Pty Limited (“MQA Manager”), a wholly owned subsidiary of Macquarie Group Limited (“Macquarie”), is the manager of MARL and the adviser for MARIL under separate agreements entered into at establishment of MQA (“the MQA Management Agreements”).

On 20 November 2017, MQA announced that directors of MARL and MARIL who are not associated with Macquarie (“the independent directors”) were to commence negotiations with Macquarie in relation to a transaction to internalise MQA’s management.

On 9 April 2018, MQA announced that agreement had been reached with Macquarie on the terms under which the MQA Management Agreements will be terminated (“the Proposal”). The key terms are as follows:

- termination will occur on 15 May 2019 (being 12 months from MQA’s annual general meeting on 15 May 2018), unless MQA elects to terminate at an earlier date;
- the fee arrangements with Macquarie will be amended as follows:

### ***Base Fees***<sup>3</sup>

Base Fees are to be paid at the current rate of 0.85% of Market Value<sup>3</sup> per annum in accordance with the existing fee structure until 15 May 2019<sup>4</sup>. If MQA terminates the contracts at an earlier date, the fees from that date until 15 May 2019 (based on the then Market Value<sup>3</sup>) will be payable upon termination.

### ***Performance Fees***<sup>3</sup>

Performance Fees are payable in three equal annual instalments from calculation if performance criteria are met (refer Section 3.2 for details). Set out below is a summary of the Performance Fees that have been earned, the components that are currently deferred and the changes resulting from the Proposal:

<sup>1</sup> Estimated economic interest not equity interest.

<sup>2</sup> Including ADELAC’s 20 kilometres (in which APRR holds a 49.9% interest).

<sup>3</sup> As defined under the MQA Management Agreements.

<sup>4</sup> Any securities issued by MQA after 30 June 2018 will be ignored in the Base Fee calculation.



## MQA – DEFERRED PERFORMANCE FEES

YEAR END 30 JUNE	TOTAL POSSIBLE FEE	INSTALMENT / AMOUNT	CURRENT STATUS	STATUS UNDER THE PROPOSAL
2016	\$134.1 million	First \$44.7 million	Paid 30 June 2016	
		Second \$44.7 million	Paid 30 June 2017	
		Third \$44.7 million	Potentially due at 30 June 2018 <sup>5</sup>	No change
2017	\$23.9 million	First \$8.0 million	Paid 30 June 2017	
		Second \$8.0 million	Potentially due on 30 June 2018 <sup>5</sup>	No change
		Third \$8.0 million	Potentially due on 30 June 2019 <sup>5</sup>	To be paid after 30 June 2018 (no performance testing)
2018	TBD <sup>6</sup>	First TBD	Potentially due on 30 June 2018 <sup>5</sup>	No change
		Second TBD	Potentially due on 30 June 2019 <sup>5</sup>	To be paid after 30 June 2018 (no performance testing)
		Third TBD	Potentially due on 30 June 2020 <sup>5</sup>	To be paid after 30 June 2018 (no performance testing)

Source: MQA

The third instalment of the Performance Fee for the year ended 30 June 2016 (“the 2016 Performance Fee”) and the second instalment of the Performance Fee for the year ended 30 June 2017 (“the 2017 Performance Fee”) will be paid in the ordinary course in accordance with the MQA Management Agreements (i.e. subject to their respective performance hurdles on 30 June 2018).

A final Performance Fee will be calculated for the year ending 30 June 2018 (“the 2018 Performance Fee”) and, if earned, will be paid in full at that time, together with the third instalment of the 2017 Performance Fee. In effect, none of the second and third instalments of the 2018 Performance Fee and the third instalment of the 2017 Performance Fee will be deferred or subject to performance testing.

The fees are payable in cash or applied to subscribe for MQA stapled securities as agreed between MQA and Macquarie;

- Macquarie is to use best efforts to maintain the continuity of service until the termination date (or such earlier date agreed by MQA and Macquarie) of:
    - James Hooke as Chief Executive Officer (“CEO”) of MQA; and
    - any other senior management personnel presently providing services to MQA.
- If any of these persons cease employment with Macquarie, Macquarie is to provide suitable replacement personnel;
- Macquarie will provide specific transition services from the date of termination until 31 December 2019 for a fee of \$750,000 per month (payable from 16 May 2019 until 31 December 2019, regardless of any early termination). The services comprise:
    - best efforts to assist and facilitate the transfer of employees involved in managing MQA should they wish to move to MQA and the MQA Boards<sup>7</sup> support this;
    - continuing to provide existing services in Luxembourg relating to the administration of certain MQA offshore entities;
    - non executive director Christopher Leslie serving on the MARIL Board and/or the board of the relevant entities of Dulles Greenway, if requested by MQA;

<sup>5</sup> Subject to achieving respective performance hurdles under the MQA Management Agreements.

<sup>6</sup> TBD = to be determined (at 30 June 2018)

<sup>7</sup> Together, the MARIL Board and the MARIL Board.



- making available and facilitating access to specified senior management personnel to assist in the management of ongoing operations, stakeholder issues and the planning and implementation of strategy at particular assets (including Dulles Greenway and APRR);
- Macquarie may terminate the MQA Management Agreements with immediate effect on written notice if a change of control event occurs for MQA, if MQA is placed in liquidation or if MQA commits a material breach of the agreements which is not capable of remedy or is not remedied within 30 days of request by Macquarie. In this case, Macquarie will be entitled to an amount equal to Base Fees between termination and 15 May 2019; and
- following termination of the MQA Management Agreements, MQA must cease use of any name, logo, mark or domain name that contains “Macquarie” or “MQA”.<sup>8</sup>

The arrangements relating to the management by Macquarie of the downstream investment vehicles through which MQA holds its interests in APRR and ADELAC are not part of the Proposal and will remain in place. The fees payable to Macquarie for this role are not currently incurred in respect of MQA’s investment while MQA is managed by Macquarie. However, following the termination of the MQA Management Agreements, the fees will become payable from 16 May 2019. Macquarie and MQA (once it has employed its own CEO) have agreed to work with the other parties to see if they can agree mutually acceptable alternative arrangements.

The Proposal is subject to the approval of MQA stapled securityholders.

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<sup>8</sup> At the securityholder meetings at which the resolution regarding the Proposal will be considered, MQA is also seeking securityholder approvals to change its name to “Atlas Arteria”. However, the Proposal is not subject to the approval of the change of name resolutions.





## 2 Scope of the Report

### 2.1 Purpose of the Report

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act, 2001 ("Corporations Act") or the ASX Listing Rules, the independent directors have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders and to state reasons for that opinion. A copy of this report is to accompany the Notices of Meetings and Explanatory Memorandum ("Explanatory Memorandum") to be sent to securityholders by MQA.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual MQA securityholders. Accordingly, before acting in relation to their investment, securityholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Securityholders should read the Explanatory Memorandum issued by MQA in relation to the Proposal.

Voting for or against the Proposal is a matter for individual securityholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, investment strategy and portfolio structure. Securityholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in MQA. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Proposal. Securityholders should consult their own professional adviser in this regard.

### 2.2 Basis of Evaluation

The Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable".

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for securityholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. If the advantages outweigh the disadvantages, the proposal would be in the best interests of securityholders.

RG111 does not provide specific guidance on the form and content of reports prepared in respect of the internalisation of management rights. However, it does state that where an expert assesses whether a transaction with a person in a position of influence requiring approval from securityholders under ASX Listing Rule 10.1 is "fair and reasonable", this involves a separate assessment of whether the transaction is "fair" and "reasonable", as in a control transaction. Applying RG111 guidance, a transaction under ASX Listing Rule 10.1 will be "fair" if the value of the financial benefit to be provided by the entity to the person in a position of influence is equal to or less than the value of the consideration being provided to the entity. For this comparison, value is determined assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

The Proposal is not a control transaction nor is there any requirement for MQA securityholder approval under ASX Listing Rule 10.1. RG111 suggests that, in these circumstances, the expert should weigh up the advantages and disadvantages of the proposal for securityholders. However, in Grant Samuel's view, the more appropriate basis upon which to evaluate the Proposal involves separate assessments of whether the



transaction is “fair” and “reasonable” on the basis that the Proposal is similar to other internalisations (except that it does not involve a capital payment to the manager).

Fairness relates to questions of value whereas reasonableness relates to other factors that arise out of the transaction. The specific approach to fairness in relation to the Proposal is set out in Section 4.3. Grant Samuel has assessed whether the Proposal is reasonable by considering:

- the impact of the Proposal on the financial position of MQA;
- the impact of the Proposal on ownership and control of MQA;
- the alternatives available to MQA;
- the advantages and benefits arising from the Proposal; and
- the costs, disadvantages and risks of the Proposal.

A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of securityholders.

## 2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

### Publicly Available Information

- the Explanatory Memorandum (including earlier drafts);
- annual reports of MQA for the eight years ended 31 December 2017;
- press releases, public announcements, media and analyst presentation material and other public filings by MQA including information available on its website;
- brokers’ reports and recent press articles on MQA; and
- sharemarket data and related information on Australian listed infrastructure entities.

### Non Public Information provided by MQA

- the overhead expense budget for MQA for CY18<sup>9</sup> prepared (in the ordinary course of business) by MQA Manager in November 2017 (“the CY18 Expense Budget”); and
- other confidential documents, board papers, presentations and working papers and third party reports prepared for the independent directors (including reports from accounting, tax, legal, remuneration and asset advisers) on estimated overhead costs for MQA on a standalone basis.

Grant Samuel has also held discussions with, and obtained information from, the independent directors and their advisers (including financial and accounting advisers). Grant Samuel has held no discussions with representatives of Macquarie.

## 2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

<sup>9</sup> CYXX = calendar year end 31 December 20XX



Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by the independent directors and their advisers. Grant Samuel has considered and relied upon this information. The independent directors have represented in writing to Grant Samuel that to the best of their knowledge the information provided by them was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of the independent directors. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of MQA. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

MQA is responsible for the information contained in the Explanatory Memorandum (including the expected standalone corporate overhead and transition costs) and the CY18 Expense Budget ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has, inter alia, taken the factors set out in Section 4.3.2 into account.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the assumptions, and the costs estimated on the basis of those assumptions, is not warranted or guaranteed by Grant Samuel. Future cash flows are inherently uncertain. They are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of MQA. Actual results may be significantly more or less favourable.



In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by the independent directors and their advisers with regard to legal, regulatory, tax and accounting matters relating to the Proposal are accurate and complete;
- the information set out in the Explanatory Memorandum sent by MQA to its securityholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



### 3 Profile of MQA

#### 3.1 Background

MQA was demerged from Macquarie Infrastructure Group (“MIG”) and listed on the ASX in January 2010. MIG was an ASX listed developer and operator of toll roads which was externally managed by Macquarie. Investor concern regarding debt levels and refinancing risk for MIG following the global financial crisis saw the MIG security price decline substantially. In response, a range of initiatives were undertaken (including divestments) but in August 2009 it was determined that further action was required. On 30 October 2009, MIG announced a proposal to restructure into two separately listed ASX toll road groups with assets allocated according to their risk profile - Intoll Group (high quality assets with stable capital structures and cash flows) and MQA (assets requiring substantial operational and financial management). Intoll Group was to be internally managed and MQA externally managed under new agreements with Macquarie.

At demerger, MQA had interests in eight assets (APRR<sup>10</sup>, Dulles Greenway, Warnow Tunnel, M6 Toll, Chicago Skyway, Indiana Toll Road, South Bay Expressway and Transtoll) and a market capitalisation of around \$280 million. Since demerger, MQA has actively managed its assets (driving operational performance) and focussed on capital management (reducing/refinancing debt, reinvesting at asset level) to enhance value and grow distributions for securityholders. In recent years, this has included rationalisation of the portfolio and consolidation of asset ownership to simplify the MQA investment proposition.

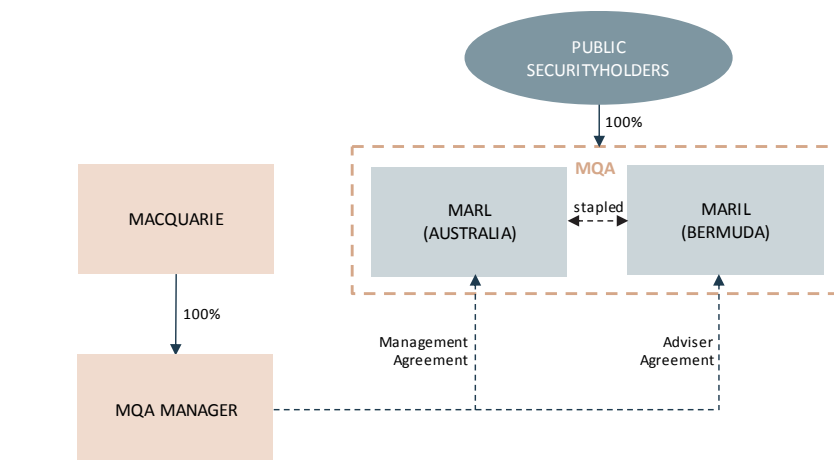
Today, MQA invests in infrastructure assets in OECD<sup>11</sup> and OECD equivalent countries (and non-infrastructure assets where ancillary to a major infrastructure investment) with a focus on toll roads. It owns interests in four assets: APRR, ADELAC, Dulles Greenway and Warnow Tunnel. Prior to the announcement of the Proposal, MQA had a market capitalisation of around \$3.7 billion.

#### 3.2 Operating Structure

MQA is a dual stapled group. Each MQA security is a share in MARL and a share in MARIL stapled to each other and trading on the ASX as a single entity. MARL and MARIL have entered into a co-operation deed providing for, amongst other things, sharing of information, adoption of consistent accounting and valuation policies and co-ordination of securityholder communications.

The ownership and operating structure of MQA is summarised below:

**MQA – OWNERSHIP AND OPERATING STRUCTURE**



Source: MQA

<sup>10</sup> Including a 49.9% interest in ADELAC.

<sup>11</sup> OECD = Organisation for Economic Co-operation and Development



MARL has a board of four directors (three of which are independent of Macquarie, including the Chairman) and MARIL has a board of five directors (four of which are independent of Macquarie, including the Chairman). The MQA Boards have one common director. MQA has no employees and is managed by MQA Manager under the MQA Management Agreements.

The MQA Management Agreements are substantially similar in their terms and require MQA Manager to assist with the general administration of MQA, to provide active management of MQA's assets and to make investment and divestment recommendations. The agreements are non-discretionary with key decision making reserved for the MQA Boards (i.e. the MQA Boards have no obligation to act on recommendations of MQA Manager). The key terms of the MQA Management Agreements are summarised below:

**MQA MANAGEMENT AGREEMENTS – KEY TERMS**

TERM	DETAILS
Exclusivity	No, the MQA Boards may appoint other advisers
Term	<p>Indefinite unless MQA Manager resigns or is removed (but not on change of control of MQA)</p> <p>MQA Manager may resign by giving not less than 90 days' written notice</p> <p>MQA Manager may be removed:</p> <ul style="list-style-type: none"> <li>by a resolution passed by at least 50% of votes cast at a meeting by MQA securityholders entitled to vote. MQA Manager and its associates (including Macquarie) may vote their securities</li> <li>for cause (e.g. liquidation, ceases to carry on business, lacks the appropriate licence or authorisation or for a material breach that cannot be remedied)</li> </ul> <p>On termination:</p> <ul style="list-style-type: none"> <li>all directors, executives and representatives of MQA Manager will cease work at the date of termination or at any other time determined by MQA</li> <li>base fees accrued to the date of termination are payable</li> <li>any second and/or third instalments of performance fees calculated prior to termination crystallise and become payable</li> </ul>
Fees	<p>May be paid in cash or applied to subscribe for MQA stapled securities</p> <p>Base Fee:</p> <ul style="list-style-type: none"> <li>calculated and paid quarterly in arrears</li> <li>calculated as a percentage of Market Value<sup>12</sup> at the end of the quarter</li> </ul> <p>Performance Fee:</p> <ul style="list-style-type: none"> <li>calculated at 30 June each year</li> <li>payable in the event that the performance of MQA securities equals or exceeds the benchmark return (S&amp;P/ASX 300 Industrials Accumulation Index) in the year ending 30 June</li> <li>any underperformance deficit from prior periods must be made up before a performance fee is earned</li> <li>calculated as 15% of the dollar amount of outperformance</li> <li>payable in three equal annual instalments from calculation date</li> <li>the first instalment is payable at calculation date with the second and third instalments only paid if MQA's performance equals or exceeds that of the benchmark index on a cumulative basis over the periods to each respective instalment payment date</li> </ul> <p>Reimbursement of expenses incurred (excluding administration costs or costs as a result of gross negligence, fraud, wilful misconduct or dishonesty by MQA Manager)</p>

Source: MQA

MQA Manager is entitled to a Base Fee at a rate of 2% per annum of Market Value<sup>12</sup>. However, a lower fee may be adopted which has occurred three times since MQA was demerged as set out in the table below:

<sup>12</sup> Market Value = the average number of MQA securities on issue in the last 10 trading days of the quarter multiplied by the 10 day volume weighted average price for MQA securities for the relevant period.



## MQA – BASE FEE RATE (PER ANNUM)

MARKET VALUE (AS DEFINED)	ORIGINAL FEE FROM 2 FEBRUARY 2010	REVISED FEE FROM 1 JANUARY 2014	REVISED FEE FROM 1 JULY 2016	REVISED FEE FROM 1 OCTOBER 2017
Up to \$1 billion	2.00%	1.75%	1.00%	0.85%
Between \$1 billion and \$3 billion	1.25%	1.00%	1.00%	0.85%
More than \$3 billion	1.00%	1.00%	1.00%	0.85%

Source: MQA

MARL (which, together with its 100% owned Australian subsidiaries) has elected to be taxed as a single entity under the Australian tax consolidation regime) is a taxed as a company and tax payments generate franking credits (albeit MARL is not currently generating net taxable income). Under current Bermudan law, MARIL is not subject to any income, withholding or capital gains taxes in Bermuda.

### 3.3 Investment Portfolio

MQA currently owns interests in four toll roads assets or networks:

## MQA – INVESTMENT PORTFOLIO

ASSET	LOCATION	INITIAL ACQUISITION DATE	CONCESSION END DATE	INTEREST
Dulles Greenway	United States	September 2005	February 2056	100.00% <sup>1</sup>
APRR	France	February 2006	November 2035 <sup>13</sup>	25.00%
ADELAC	France	February 2006	December 2060	25.03%
Warnow Tunnel	Germany	December 2000	September 2053	70.00%

Source: MQA

Set out below is a brief description of each asset:

#### Dulles Greenway

Dulles Greenway is a 22 kilometre toll road connecting Leesburg, Virginia to the greater Washington D.C. region of the United States. The road is a key commuter route in a fast growing region. TRIP II, a limited partnership, holds the concession to operate the road until 2056.

MQA holds an effective 100% economic interest in Dulles Greenway. This interest comprises:

- a 13.4% equity interest in TRIP II (including, indirectly, the general partner's interest); and
- two subordinated loans secured against the other limited partner's 86.6% equity interest in TRIP II.

Dulles Greenway is in "lockup" under its debt arrangements and unable to make distributions to MQA. It is not expected to come out of lockup before December 2019.

#### APRR / ADELAC

APRR operates three French motorway concessions: the APRR Concession, the AREA Concession and the ADELAC Concession (via ADELAC). Under these concessions, APRR is entitled to operate a 2,323 kilometre<sup>2</sup> motorway network in the east of France. This network represents a vital transportation corridor for Western European trade.

ADELAC holds the concession for the A41 motorway, a 20 kilometre road between Annecy in eastern France and Geneva in Switzerland. The road provides a continuous motorway connection to the A41 (south) and the A40 (west), part of the APRR motorway network. APRR operates the ADELAC Concession.

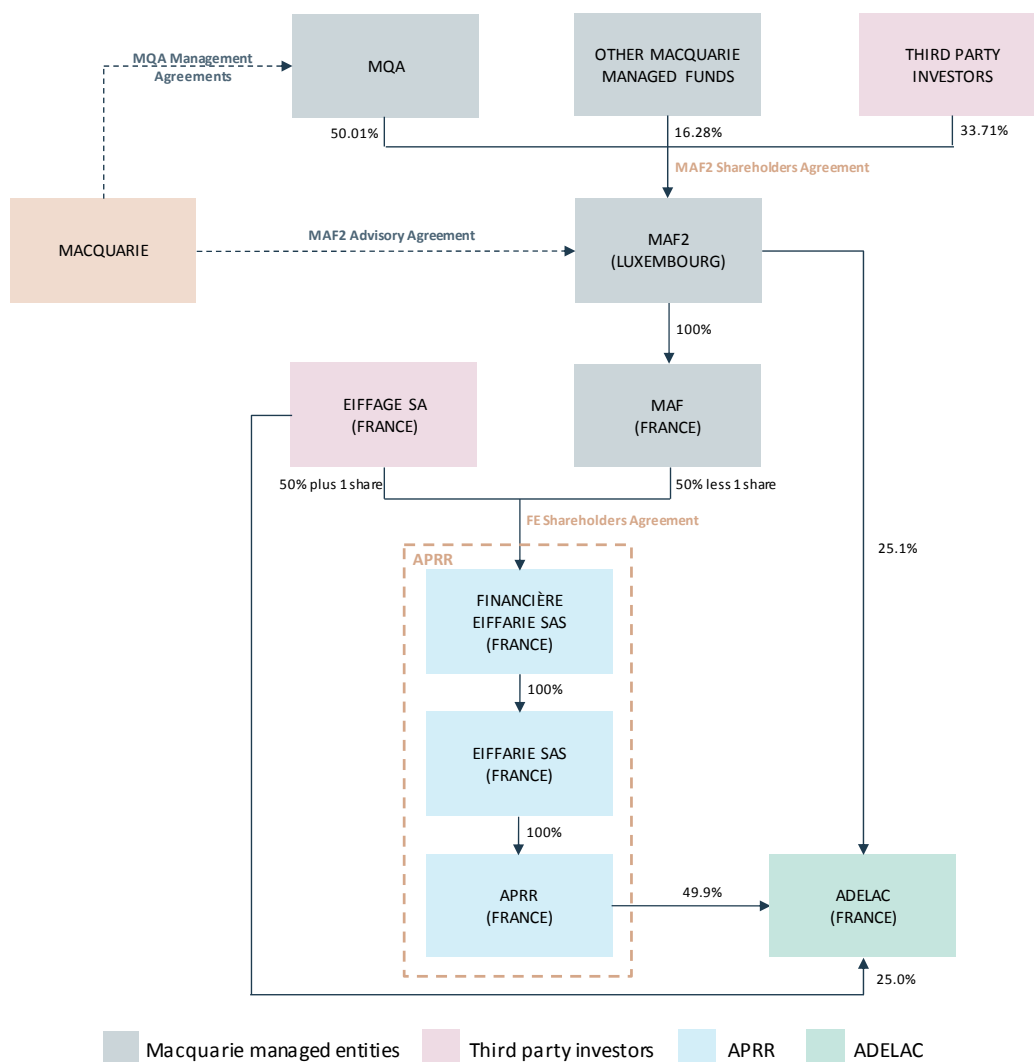
MQA holds a 25.0% indirect interest in APRR and a 25.03% indirect interest in ADELAC. The ownership structure for APRR / ADELAC is summarised below:

<sup>13</sup> Concession end date for the APRR Concession. The concession end date for the AREA Concession is September 2036.





## APRR / ADELAC – OWNERSHIP STRUCTURE



Source: MQA

Note: Simplified structure diagram (i.e. not all entities in the corporate structure shown)

APRR and ADELAC are jointly owned by Eiffage<sup>14</sup> and MAF<sup>15</sup>, a wholly owned subsidiary of MAF2<sup>16</sup>, with MAF2 also owning an interest in ADELAC. MAF2 is owned as to 50.01% by MQA, 33.71% by a third party investor and 16.28% by other funds managed by Macquarie<sup>17</sup>.

The shareholders of MAF2 have entered into an agreement governing their interests (“MAF2 Shareholders Agreement”) and an advisory agreement with MIREAL<sup>18</sup>, a wholly owned subsidiary of Macquarie (“MAF2 Advisory Agreement”). MAF and Eiffage have also entered into an agreement governing their interests in APRR (“FE Shareholders Agreement”). These three agreements (together “the APRR Agreements”) are linked and have implications in the context of the Proposal. Accordingly, the key terms of the APRR Agreements are summarised below:

<sup>14</sup> Eiffage SA is a construction and engineering company listed on the French stock exchange.

<sup>15</sup> MAF = Macquarie Autoroutes de France SAS

<sup>16</sup> MAF2 = Macquarie Autoroutes de France 2 SA

<sup>17</sup> Macquarie European Infrastructure Fund 2 (“MEIF2”) and Macquarie Mercer Infrastructure Trust (“MMIT”).

<sup>18</sup> MIREAL = Macquarie Infrastructure and Real Assets (Europe) Limited



## APRR AGREEMENTS – KEY TERMS

AGREEMENT	KEY TERMS
MAF2 Shareholders Agreement	<ul style="list-style-type: none"> <li>While the MAF2 Advisory Agreement remains in force, MIREAL holds certain governance rights in relation to APRR (including the right to appoint directors)</li> <li>There are restrictions on the sale of shares in MAF2 (including pre-emptive rights)</li> <li>Certain reserved matters (including termination of the MAF2 Advisory Agreement) may only occur following a resolution approved by shareholders holding 85% of MAF2 shares</li> </ul>
MAF2 Advisory Agreement	<ul style="list-style-type: none"> <li>No fixed term and can only be terminated by a resolution approved by shareholders holding 85% of MAF2 shares and with a three month notice period (i.e. MIREAL cannot unilaterally resign)</li> <li>In return for providing services outlined in the agreement, MIREAL is entitled to receive base and performance fees from MAF2 shareholders</li> <li>The base fee is calculated and paid quarterly in arrears and is equal to €147,500 per annum for each 1% ownership interest in MAF2 (or pro rata thereof)</li> <li>The performance fee is calculated on a cumulative basis as 15% of total gross cash flows received by MAF2 from the APRR investment after an 8% internal rate of return is achieved on the APRR investment</li> <li>No fees are payable by a MAF2 shareholder who is party to management arrangements with Macquarie. If a MAF2 shareholder ceases to be managed by Macquarie, the fees will be calculated and become payable from that date and the performance fee will be based on the then fair market value of the investment in APRR / ADELAC<sup>19</sup></li> <li>MIREAL is entitled to reimbursement of expenses incurred (excluding administration costs or costs as a result of gross negligence, fraud, wilful misconduct or dishonesty)</li> </ul>
FE Shareholders Agreement	<ul style="list-style-type: none"> <li>The Chairman shall be an Eiffage nominee and hold a casting vote on all board decisions except in the case of matters reserved for shareholders</li> <li>While Eiffage and MAF own at least 90% of their initial investment, a board resolution on certain reserved matters are subject to certain voting thresholds</li> <li>There are restrictions on the sale of shares including pre-emptive rights</li> <li>If MAF ceases to be managed by Macquarie, MAF will lose certain governance rights including the right to appoint directors to the boards (and therefore the right to vote on reserved matters) and to certain board committees of entities comprising APRR</li> <li>If (a) MAF ceases to be managed by Macquarie and (b) MQA and/or an entity managed by Macquarie no longer holds at least 50% of MAF, Eiffage shall be entitled to exercise a call option to acquire MAF's interest in APRR at fair market value</li> </ul>

Source: MQA

### Warnow Tunnel

Warnow Tunnel is a 2.1 kilometre toll road (including a 0.8 kilometre tunnel under the Warnow River) in the city of Rostock in north eastern Germany. Warnowquerung GmbH & Co. KG ("WQG") holds the concession to operate Warnow Tunnel until 2053. MQA has a 70% interest in WQG with the remaining 30% owned by a subsidiary of Bouygues Group, a diversified industrial group listed on the French stock exchange.

### 3.4 Financial Performance

Set out below is the financial performance of MQA since establishment in December 2009. This information is based on the statutory financial information disclosed by MQA but has been presented by Grant Samuel on a basis that is more useful for the purposes of this report:

<sup>19</sup> Accordingly, if the Proposal is implemented fees will be payable by MQA under the MAF2 Advisory Agreement. Based on its 50.01% interest in MAF2, MQA's base fee liability would be €7.4 million. In addition, a performance fee equal to 15% of the total cash flows from the APRR investment would become payable by MQA to Macquarie (MIREAL) after an 8% internal rate of return is achieved by MQA on its APRR investment. The performance fee calculation commences as at the date of termination of the MQA Management Agreements and the investment base is set to fair market value at that date.



MQA - FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 31 DECEMBER							
	2010 <sup>20</sup>	2011	2012	2013	2014	2015	2016	2017
<b>Revenue and other income</b>	<b>103.1</b>	<b>91.9</b>	<b>93.5</b>	<b>0.9</b>	<b>2.1</b>	<b>2.6</b>	<b>3.2</b>	<b>97.4</b>
Equity accounted profits	(208.8)	(90.3)	(40.6)	64.5	31.2	113.3	330.0	188.0
Operating expenses	(73.4)	(74.9)	(73.8)	(3.4)	(2.8)	(4.9)	(4.2)	(63.5)
Management fees	(22.9)	(64.5)	(14.8)	(20.0)	(81.1)	(25.9)	(163.5)	(40.8)
Finance costs <sup>21</sup>	(95.6)	(102.6)	(104.6)	-	-	-	-	(53.8)
Non-recurring items <sup>22</sup>	54.7	(67.4)	-	1,381.5	-	-	67.4	375.6
Income tax benefit <sup>23</sup>	16.0	18.3	15.9	-	-	-	(7.8)	16.7
<b>Profit attributable to MQA securityholders</b>	<b>(226.9)</b>	<b>(289.5)</b>	<b>(124.4)</b>	<b>1,423.5</b>	<b>(50.6)</b>	<b>85.1</b>	<b>225.1</b>	<b>519.6</b>
<i>Statistics</i>								
<i>Basic earnings per security</i>	<i>(31.7)¢</i>	<i>(63.4)¢</i>	<i>(26.4)¢</i>	<i>295.8¢</i>	<i>(10.2)¢</i>	<i>16.5¢</i>	<i>43.2¢</i>	<i>87.7¢</i>
<i>Distributions per security</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>5.7¢</i>	<i>13.2¢</i>	<i>16.0¢</i>	<i>18.0¢</i>	<i>20.0¢</i>

Source: MQA and Grant Samuel analysis

The following should be noted in relation to MQA's financial performance:

- MQA controlled M6 Toll and consolidated its earnings until 4 June 2013 and has controlled and consolidated Dulles Greenway since 16 May 2017. This is reflected in revenue, operating expenses, finance costs and income tax benefit in those periods;
- equity accounted profits reflect MQA's share of earning of its investments and changes in the portfolio over time. MQA's key investments in the period have been APRR and Dulles Greenway and equity accounted profits recognised primarily reflect the financial performance of these two assets;
- operating expenses include MQA's corporate overheads and operating costs associated with controlled assets (as discussed above). A summary of MQA's corporate overheads is set out below:

MQA – CORPORATE OVERHEADS (\$ MILLIONS)

	YEAR ENDED 31 DECEMBER							
	2010 <sup>20</sup>	2011	2012	2013	2014	2015	2016	2017
Employment costs	0.7	0.7	0.7	0.7	0.8	0.9	1.1	1.3
Consulting and administration	1.6	1.5	1.4	1.5	1.0	2.5	2.0	6.8 <sup>24</sup>
Other	1.4	0.5	1.0	1.3	0.9	1.1	1.2	2.2
<b>Corporate overheads</b>	<b>3.7</b>	<b>2.7</b>	<b>3.1</b>	<b>3.5</b>	<b>2.7</b>	<b>4.5</b>	<b>4.3</b>	<b>10.3</b>

Source: MQA and Grant Samuel analysis

Employment costs include directors' fees and insurance. Consulting and administration includes audit fees, legal fees, external administrator fees and consulting fees. Other includes travel costs, investor communications, ASX listing fees and registry fees. Capital raising costs and transaction costs (in relation to equity accounted investments only) incurred in the period have been capitalised; and

<sup>20</sup> MQA's first reporting period from 15 December 2009 and reflects ownership of assets from the demerger from MIG on 2 February 2010.

<sup>21</sup> Finance costs principally relate to borrowings of consolidated investments. However, in CY17 \$11.4 million relates to corporate asset finance facilities drawn down by MQA to fund the acquisition of the remaining 50% in Dulles Greenway and an additional interest in APRR.

<sup>22</sup> Non recurring items comprise profits from deconsolidated operations in CY10 (\$54 million relating to MAF2) and CY13 (\$1,381.5 million relating to M6 Toll), profits from a discontinued operation (Transtoll) in CY10 (\$0.7 million), a \$67.4 million provision for impairment of Dulles Greenway in CY11 and reversal of the same provision in CY16 and a \$375.6 million gain on revaluation of MQA's original 50% interest in Dulles Greenway in CY17.

<sup>23</sup> income tax benefits/(expenses) relate to consolidated investments or divestment of investments.

<sup>24</sup> Including costs associated with the acquisition of the remaining 50% of Dulles Greenway and the Proposal (total \$5.5 million). MQA's corporate overheads in CY17 were \$4.8 million if these non recurring items are excluded.



- management fees include base and performance fees recognised by MQA as earned by MQA Manager. Base fees have been satisfied in cash while performance fees have generally been applied to subscribe for MQA stapled securities:

**MQA – MANAGEMENT FEES (\$ MILLIONS)**

	YEAR ENDED 31 DECEMBER							
	2010 <sup>20</sup>	2011	2012	2013	2014	2015	2016	2017
Base fees	10.4	14.4	14.8	20.0	22.9	25.9	29.4	32.8
Performance fees	12.5	50.1	-	-	58.2	-	134.1	8.0 <sup>25</sup>
<b>Management fees</b>	<b>22.9</b>	<b>64.5</b>	<b>14.8</b>	<b>20.0</b>	<b>81.1</b>	<b>25.9</b>	<b>163.5</b>	<b>40.8</b>
<i>Satisfied as follows:</i>								
<b>Base fees:</b>								
- in cash	(7.1)	(14.7)	(14.3)	(18.1)	(23.2)	(24.7)	(30.4)	(30.5)
<b>Performance fees:</b>								
- in cash	(4.2)	-	-	-	-	-	-	-
- in stapled securities	-	(20.9)	(20.9)	(16.7)	(19.4)	(19.4)	(64.1)	(52.7)

Source: MQA and Grant Samuel analysis

Base fees have grown over the period as MQA's market value has increased notwithstanding decreases in the rate at which they are charged (refer Section 3.2).

### 3.5 Distributions

MQA's statutory financial performance is not indicative of cash flow or distributions. Its ability to pay distributions is dependent on the receipt of distributions from investments after meeting its other financial obligations including management fees.

MQA did not commence paying distributions until CY13 following receipt of a distribution from MAF2 in CY12 (following the acquisition of the APRR minorities, simplification of the APRR ownership structure and completion of the APRR refinancing plan). Since then, MQA distributions have been underpinned by MAF2 distributions (which are based on distributions from APRR) with all other investments (other than those that have been realised) in "lockup" under their debt documents and unable to make distributions to MQA.

MQA has historically paid distributions to securityholders twice a year around 31 March and 30 September. To date, distributions have only been paid by MARIL and have generally included a combination of ordinary foreign dividends and capital returns.

Distributions paid have grown strongly since CY13 as MQA has focused on its portfolio and on simplifying its operating structure. On 28 February 2018, MQA announced an increase in its distribution guidance for CY18 to 24 cents per security, subject to asset performance, movements in foreign exchange and future events.

To provide an indication of expected future distributions of MQA beyond CY18, Grant Samuel has considered brokers' forecasts for MQA<sup>26</sup>. Brokers are forecasting growth in distributions to continue over the period to CY20 primarily on the back of increased cash flow from APRR.

<sup>25</sup> For the year ended 30 June 2017, a total performance fee of \$23.9 million was calculated for MQA. However, at 31 December 2017 MQA assessed that it was not sufficiently probable that the second or third instalments of the fee would become payable and recognised only the first instalment (\$8 million). The balance of the performance fee (\$15.9 million) is disclosed as a contingent liability of MQA.

<sup>26</sup> Calculated by Grant Samuel based on broker estimates for MQA distributions. As far as Grant Samuel is aware, MQA is followed by eight brokers, all of which have published research since the release of MQA's CY17 results on 28 February 2018. The median estimates are: 24 cents for CY18 (in line with MQA guidance), 35.6 cents (range 27.4-43.0 cents) for CY19 and 40.5 cents (range 31.0-60.0 cents) for CY20. Brokers are of the view that APRR will continue to be the key driver for distribution growth reflecting improving operating conditions and performance, legislated tax cuts in France and the 4.86% increase in MQA's interest in APRR. Six of the eight brokers are projecting distributions from Dulles Greenway in CY20 with the remaining two brokers projecting distributions from CY21.

The range of estimates for CY19 and CY20 are wide due to limited transparency for distributions from MQA's investments and as two brokers are projecting distributions from Dulles Greenway to commence in CY21. Nevertheless, even at the low end of the estimate range, brokers are projecting growth in MQA distributions of 13-14% per annum.



Set out below is a summary of distributions paid by MQA since establishment, MQA's distribution guidance for CY18 and broker median forecasts for distributions for CY19-CY20 (calculated by Grant Samuel):

#### MQA – DISTRIBUTIONS PER SECURITY (CENTS)

	YEAR ENDED 31 DECEMBER										
	ACTUAL								MQA GUIDANCE	BROKER MEDIAN <sup>26</sup>	
	2010 <sup>20</sup>	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Amount	-	-	-	5.7¢	13.2¢	16.0¢	18.0¢	20.0¢	24.0¢	35.6¢	40.5¢
Growth					131.6%	21.2%	12.5%	11.1%	20.0%	48.3%	13.8%

Source: MQA and Grant Samuel analysis

### 3.6 Financial Position

MQA's financial position changed substantially during CY17 due to the acquisition of the remaining 50% of Dulles Greenway. MQA's financial position at 31 December 2017 is summarised below:

#### MQA - FINANCIAL POSITION (\$ MILLIONS)

	AS AT 31 DECEMBER 2017		
	DULLES GREENWAY	CORPORATE	MQA CONSOLIDATED
Debtors and prepayments	-	1.5	1.5
Creditors and provisions	(7.2)	(57.8)	(65.0)
<b>Net working capital</b>	<b>(7.2)</b>	<b>(56.3)</b>	<b>(63.5)</b>
Property, plant and equipment (net)	0.7	-	0.7
Goodwill	58.7	-	58.7
Tolling concessions (net)	2,189.7	-	2,189.7
Equity accounted investments	-	1,483.3	1,483.3
Restricted cash	151.6	1.8	153.4
Deferred tax liabilities	(40.3)	-	(40.3)
Easement accruals	(9.7)	-	(9.7)
<b>Total funds employed</b>	<b>2,343.5</b>	<b>1,428.8</b>	<b>3,772.3</b>
Cash and cash equivalents	83.8	38.9	122.7
Interest bearing loans	(1,287.5)	(445.4)	(1,732.9)
<b>Net borrowings</b>	<b>(1,203.7)</b>	<b>(406.5)</b>	<b>(1,610.2)</b>
<b>Net assets attributable to MQA securityholders</b>	<b>1,139.8</b>	<b>1,022.3</b>	<b>2,162.1</b>
<b>STATISTICS</b>			
Securities on issue at period end (million)			669.8
Net assets per security			\$3.23
NTA <sup>27</sup> per security			(\$0.07)

Source: MQA and Grant Samuel analysis

Creditors and provisions include:

- base fees (\$8.9 million) being the fee for the quarter ended 31 December 2017; and
- performance fees (\$44.7 million) being the third instalment of the 2016 Performance Fee which will be paid if performance criteria are met at 30 June 2018. No provision has been made for the second and third instalments of the 2017 Performance Fee (\$15.9 million). MQA has disclosed these instalments as contingent liabilities.

Equity accounted investments principally represent MQA's interests in APRR and ADELAC held via MAF2.

<sup>27</sup> NTA is net tangible assets, which is calculated as net assets less goodwill, tolling concessions and deferred tax liabilities.



Interest bearing loans includes corporate asset finance facilities drawn down by MQA during CY17 to acquire the remaining 50% of Dulles Greenway and the additional 4.86% interest in APRR.

At 31 December 2017, MQA had \$230 million of unused income tax losses, none of which were recognised in the balance sheet.

### 3.7 Capital Structure and Ownership

MQA has 669,788,565 stapled securities on issue and over 23,000 registered securityholders.

At 1 March 2018, the top 20 registered securityholders accounted for approximately 85% of securities on issue and are principally institutional nominee or custodian companies. MQA has a significant retail investor base with around 93% of registered holders classified as retail (10,000 or less securities) although this only represents around 6.3% of securities on issue.

MQA has received notices from the following substantial securityholders:

**MQA – SUBSTANTIAL SECURITYHOLDERS**

SECURITYHOLDER	DATE OF NOTICE	NUMBER OF SECURITIES	PERCENTAGE
Lazard Asset Management Pacific Co	6 February 2018	81,608,669	12.2%
Yarra Funds Management Limited	6 December 2017	38,908,925	5.8%

Source: MQA

The application of performance fees to subscribe for stapled securities results in a principal interest by Macquarie in MQA which is in addition to any relevant interest that might arise from its institutional business activities. As at 31 March 2018 Macquarie does not hold a principal interest in MQA.

### 3.8 Security Price Performance

MQA securities commenced trading in February 2010 at around \$0.70 and rose gradually to around \$1.50 by late 2010. Until 2013 they traded broadly in the range of \$1.50-1.90. The following graph illustrates the movement in the MQA security price and trading volumes since 1 January 2013:

**MQA – SECURITY PRICE AND TRADING VOLUME**  
(JANUARY 2013 TO APRIL 2018)



Source: IRESS

Notes: (1) Security prices adjusted for 1 for 6.62 entitlement offer completed on 9 October 2017.  
(2) Macquarie sold 53.4 million securities on 2 September 2016 via an institutional bookbuild at \$5.32 per security.  
(3) Macquarie sold 76 million securities on 15 December 2017 via an institutional bookbuild at \$6.00 per security.



Since MQA paid its first distribution in April 2013, the security price has risen reflecting portfolio optimisation progress and the ongoing strong performance of APRR which has underpinned the growth in distributions. While the trend has been upwards, since June 2016 there has been increased price volatility.

Following the 4 July 2016 announcement of a \$134.1 million performance fee for the year ended 30 June 2016 and a decrease in the base fee rate, the MQA security price rose from around \$5.00 to around \$5.80. In line with other ASX listed yield stocks, the MQA price traded down as global bond yields increased materially, reaching a low in mid November 2016.

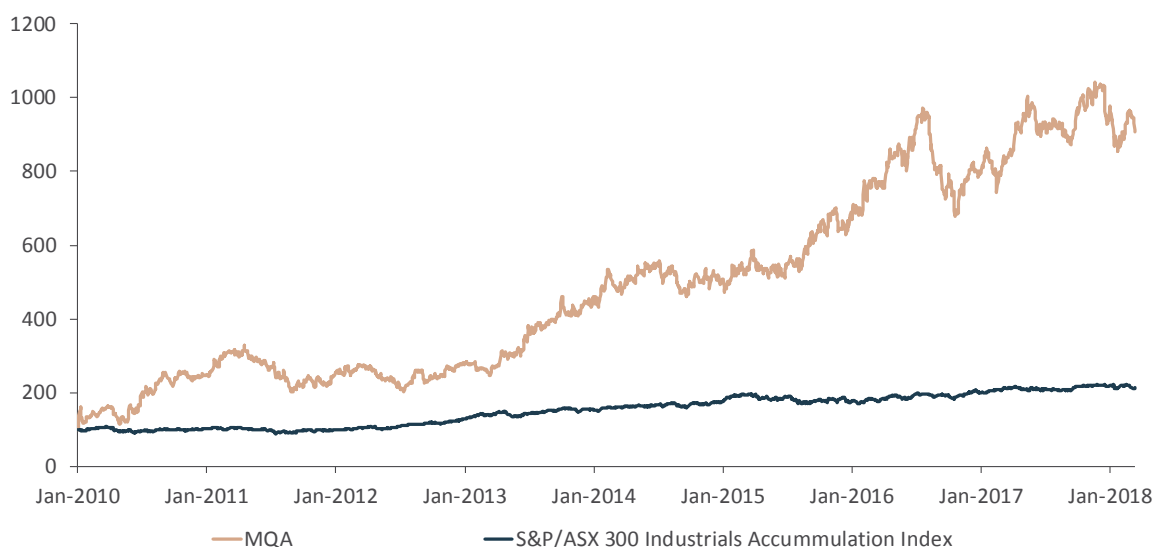
In a relatively stable bond yield environment, the MQA security price recovered in 2017 on the back of positive developments (improved operating performance in CY16, the acquisition of the remaining 50% of Dulles Greenway, inclusion in the S&P/ASX 100 Index and acquisition of an additional 4.86% indirect interest in APRR as well as the commencement of internalisation negotiations). During 2017, MQA securities traded in a range of \$4.54-6.44 (at a volume weighted average price of \$5.53) and closed on 31 December 2017 at \$6.29 (notwithstanding Macquarie's sell down of 76 million securities on 15 December 2017 at \$6.00 per security).

During 2018, the MQA security price initially followed the market lower to around \$5.40 but has risen following the release of MQA's CY17 results on 28 February 2018 and closed at \$5.54 on 5 April 2018.

MQA has no restrictions on free float and has been a reasonably liquid stock. Excluding the 76 million securities sold by Macquarie in December 2017, average weekly volume over the twelve months prior to 31 March 2018 represented approximately 1.9% of average securities on issue or annual turnover of around 100% of total average issued capital.

MQA is a member of various indices including the S&P/ASX 100 Index, S&P/ASX 200 Index and S&P/ASX 300 Index. Its weighting in these indices is approximately 0.26%, 0.23% and 0.22% respectively. As shown in the chart below, MQA has significantly outperformed its benchmark index (S&P/ASX 300 Industrials Accumulation Index) since listing (albeit not outperforming in certain performance fee calculation periods):

**MQA VS S&P/ASX 300 INDUSTRIALS ACCUMULATION INDEX  
(JANUARY 2010 TO APRIL 2018)**



Source: IRESS



## 4 Evaluation of the Proposal

### 4.1 Summary

**In Grant Samuel's opinion, the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders.**

MQA was established as a new listed entity in January 2010 following a restructuring of MIG. At that time, MQA held a portfolio of assets that faced a number of challenges and the continuation of external management by Macquarie was considered, on balance, to be the most effective means of meeting those challenges and managing MQA through a process of asset stabilisation and portfolio restructuring. Since that time, equity market investors have made increasingly clear a preference for internally managed investment vehicles, particularly in the infrastructure and property sectors, and MQA has now evolved to the point where it makes sense to transition to internal management. Accordingly, the independent directors initiated discussions with Macquarie to seek to agree a basis on which management could be brought "in house".

The Proposal that has been developed enables that transition to occur in an orderly, co-operative manner and is expected to deliver net savings in corporate overheads in the order of \$4-11 million per annum (based solely on savings in Base Fees). The incremental one-off costs of implementing the Proposal (relative to the status quo) amount to approximately \$18-25 million (see Section 4.3.6(i)).

On this basis, securityholders are better off from a financial perspective (even before allowing for any performance fee savings). The uplift in earnings could have a positive impact on the MQA security price (even after allowing for costs), albeit minor. Even if the short term financial benefits were less positive, the operational and strategic advantages would still warrant implementing internalisation. The benefits for MQA securityholders include:

- increased predictability of earnings (as current management fees are based on MQA's market capitalisation);
- elimination of performance fees at the MQA level which further improves the predictability of earnings (albeit, potentially, partly offset by the commencement of a performance fee at the MAF2 level);
- better alignment of management interests with those of investors and direct accountability solely to those investors;
- direct control of employee remuneration and other overhead costs;
- elimination of potential conflicts of interest between the manager and securityholders (whether real or perceived);
- removal of the discount that may be applied by some analysts and investors to externally managed entities;
- expansion of the pool of potential investors (as some institutional investors are prohibited from investing in externally managed vehicles); and
- increased potential for a change of control event.

There are some disadvantages, costs and risks, primarily:

- the risk of poor execution in establishing the new organisation (e.g. selection of CEO and senior management);
- potential for overhead costs to exceed the current estimates of the independent directors; and
- the loss of access to the Macquarie pool of executive resources and its expertise in infrastructure.





The primary alternative for internalisation would be unilateral termination of the MQA Management Agreements. This is a cheaper but much riskier path. The financial and operational benefits of both alternatives are the same but the Proposal is expected to incur additional one-off costs of \$6-17 million (see Section 4.3.6(ii)) compared to unilateral termination (depending on the handover date).

In Grant Samuel's view, this cost (which is, at most, 2.5 cents per security or about 0.4% of the market value of a security) is justified by the benefits of a co-operative handover program and the avoidance of risks and disadvantages inherent in unilateral termination, including:

- having full co-operation of the existing Macquarie team continue to manage the business while MQA's new team is developed and "gets up to speed";
- continuation of certain administration services relating to the investment in APRR;
- extended availability from Macquarie of certain key members of the senior management team currently servicing MQA and other administration services (until 31 December 2019);
- a longer period to identify and secure new management;
- transfer of corporate knowledge; and
- eliminating the risk of early resignation by Macquarie.

## 4.2 Background and Rationale

The external management model for listed entities was established in Australia in the late 1970s in the property sector with the creation of General Property Trust by Lend Lease Corporation Limited. It was also adopted for infrastructure investment vehicles as that sector developed through the 1990s and early 2000s. The model was promoted on the basis that the managed entities were effectively passive owners of assets with underlying annuity type income. The external manager brought expertise from its broader business operations as well as financing capability and access to future investment opportunities (deal flow) that would not otherwise be available to a standalone entity.

However, more recently, particularly since the global economic downturn commenced in mid 2007, the external management model has fallen out of favour with some equity investors because of the perceived conflicts of interest, management issues (dual responsibilities, lack of visibility on remuneration, etc.) and concerns about performance fees and underlying performance.

There are a number of benefits that can arise from internal rather than external management including:

- savings from elimination of base management fees (less the incremental costs of "self managing");
- elimination of performance fees and increased predictability of earnings;
- direct accountability of directors<sup>28</sup> and executive management to investors and investor control over the appointment of all directors;
- better alignment of management interests with those of investors and elimination of conflicts of interest between the manager and securityholders (whether real or perceived);
- direct control of employee remuneration;
- removal of the discount that may be applied by some analysts and investors to externally managed entities;
- expansion of the pool of potential investors (as some institutional investors are prohibited from investing in externally managed vehicles); and
- increased potential for a change of control event.

<sup>28</sup> Where, for example, the responsible entity is the manager of the fund and directors, including independent directors, are appointed by the shareholders of the responsible entity.



Accordingly, in the decade since 2007 there has been a considerable move away from external management in favour of independent self managed entities and, consequently, there has been a considerable number of “internalisations” in both the property and infrastructure sectors. Indeed, MQA is now the only significant externally managed infrastructure investment vehicle listed on the ASX. Even among property investment vehicles, there are only four externally managed entities with a market capitalisation of more than \$1 billion.

Initially, an external management model made sense for MQA given Macquarie’s familiarity with the assets and the complexities and challenges of its portfolio which required intensive management by an experienced team focussed on asset turnaround and optimisation and portfolio rationalisation. However, the progress that has been achieved in portfolio simplification and restructuring, asset stabilisation and improving cash flows, as well as admittance into the S&P/ASX 100 Index has created circumstances in which pursuing internalisation became viable and potentially attractive. The MQA Boards came to the view that internalisation offered significant operational and strategic benefits that could not be achieved through renegotiating the terms of the existing arrangements or changing managers. After consulting with key securityholders, the independent directors therefore announced in November 2017 that they were to commence negotiations with Macquarie in relation to internalising the management of MQA.

In pursuing internalisation, there are essentially two options:

- unilateral termination of the incumbent manager (with or without payment); or
- negotiation of an agreed settlement under which the entity pays the manager compensation (often a capital sum) for the forgone income and the manager assists (beyond its statutory obligations) in achieving a smooth transition, particularly in relation to executive management and information transfers. Often, the entire organisation (including staff) or major elements of it, are transferred to the entity as part of the transaction.

In some cases, unilateral termination is not practical or sensible because of the “entrenchment” of the manager or the complexity of the management task. For example, there might be long term non-cancellable underlying asset management contracts (in relation to day to day management of individual assets or businesses), large numbers of “operational” staff or substantial costs incurred because terms of key debt facilities are breached if the manager is terminated. In these cases, a compensatory payment is warranted and usually necessary.

In the case of MQA, unilateral termination of the MQA Management Agreements is theoretically possible (because of the limited formal entrenchment) and practically viable (given the extent of the cost savings, the nature of its investment portfolio, the scope of management required and the absence of other significant barriers). The reasons include:

- the MQA Management Agreements can be terminated by simple majority (i.e. >50%) resolutions of MQA securityholders. Moreover, the MQA Management Agreements can be dealt with independently of the MAF2 Advisory Agreement (although termination of the MQA Management Agreements does have consequences for MQA in relation to MAF2 management fees);
- Macquarie currently has no principal shareholding in MQA to vote at a general meeting to terminate the MQA Management Agreements, having sold down its remaining principal interests in December 2017;
- none of MQA’s debt facilities (including at the asset level) have any terms where removal of Macquarie as adviser/manager of MQA would trigger an event of default or any other kind of review event;
- MQA comprises two corporate entities, only one of which is an Australian entity. Accordingly, there is no need to establish new responsible entities (which would be the case if trusts were involved). Responsible entities require licensing by ASIC and need to be able to demonstrate the financial resources, organisational capacity, expertise and experience. It is not usually a rapid or simple process;



- the management task, while important, is not organisationally substantial or complex and it would be relatively straightforward to replace the services provided to MQA by Macquarie:
  - the major asset of MQA is an effective 25% interest in APRR which contributes approximately 85% of proportionate EBITDA. MQA has restricted direct involvement in the management of this asset:
    - while the MAF2 Advisory Agreement remains in place, Macquarie has the right to appoint the majority of directors of MAF2 and MAF. Only limited matters require the approval of MAF2 shareholders;
    - Macquarie controls the appointment of the MAF nominees on the boards of the relevant APRR entities;
    - Eiffage has effective control of the APRR boards through the Chairman's casting vote (except for matters reserved for shareholders); and
    - APRR has its own management team;
  - the only other asset that absorbs meaningful management resources, is Dulles Greenway which is now effectively 100% controlled and contributes approximately 12% of proportionate EBITDA. Dulles Greenway is currently in "lock up" under its banking facilities and has recently suffered traffic downturns. It will continue to require significant attention with key decisions to be made going forward but it does have its own management team and board of directors;
  - ADELAC is managed by APRR; and
  - the current focus of the business is on maintaining the momentum within its existing assets (operational improvements, cash flow enhancement) and pursuing adjacent projects rather than originating new investments.

In short, the appointment of a well qualified CEO and Chief Financial Officer ("CFO") supported by a small team of executives and other support staff together with outsourced services for some specific functions should be sufficient to enable the portfolio to be efficiently and competently managed.

The independent directors contemplated unilateral termination in the event that a satisfactory proposal could not be agreed with Macquarie. However, they formed the view that an agreed transaction with Macquarie was preferable because:

- the incremental "cost" of the Proposal relative to the expected costs of a unilateral termination is relatively modest. There is no capital payment although there is a slightly longer period over which the existing management fees continue to be incurred (compared to unilateral termination);
- the impact on MQA performance fees payable is the same under either approach; and
- the benefits (and avoidance of risks) of a co-operative transition program compared to a unilateral termination were considered to substantially outweigh this cost (see Section 4.3.6 below).

The independent directors also decided not to link internalisation of MQA to termination of the MAF2 Advisory Agreement at the same time because:

- there is a financial benefit from the Proposal even after allowing for the fees that will be triggered under the MAF2 Advisory Agreement; and
- dealing with these arrangements involves significant complexities (e.g. multiple parties) and risks (e.g. potentially triggering Eiffage's call option). The length of time it might have taken to resolve all of the issues to the satisfaction of the independent directors could also cause significant delays.

It is understood that MQA remains open to restructuring the MAF2 arrangements once MQA has engaged its own CEO.



## 4.3 Fairness

### 4.3.1 Approach

Fairness involves issues of “value”. However, the Proposal does not fit the normal transaction structure for assessing fairness. There is no capital sum/payment to be compared with the value (e.g. net present value) of an income stream. Similarly, it cannot easily be looked at through the related party framework where the comparison is between the value of the financial benefit given to the related party and the value of the consideration received. In this case, Macquarie is, strictly, not receiving any consideration from MQA (apart from the additional transition services). Indeed, it is giving up its contractual entitlements.

Grant Samuel believes that the appropriate way in which to analyse the fairness of the Proposal is to consider it from two perspectives:

- are MQA securityholders financially better off than under status quo? Specifically, is the value of the net savings from internalisation of greater value than the incremental costs of implementing the Proposal? and
- is the outcome superior to alternative courses of action such as unilateral termination?

The following sections set out:

- details of costs that will be incurred if the Proposal is implemented;
- the impact of the Proposal on performance fees; and
- an assessment of the financial benefits and costs to MQA securityholders of the Proposal and alternative courses of action.

### 4.3.2 Standalone Overhead Costs

The independent directors have estimated the annual overhead costs that will be incurred by MQA on an internalised “business as usual” basis to be in the range \$15-20 million. These costs comprise:

- the costs of replacing the services currently provided by Macquarie, including:
  - senior management such as CEO, CFO, Asset Directors and Investor Relations (salary, on costs, travel etc); and
  - asset management, financial reporting, treasury, tax, human resources, compliance and secretarial functions either by employment of relevant individuals or through outsourcing;
- rent and other infrastructure costs (telecommunications, IT, etc); and
- the overhead costs presently incurred by MQA (in addition to management fees paid to Macquarie) which include directors’ fees, registry and listing costs, insurance, audit and certain administration costs.

It is difficult, at this stage, to be precise as to the costs of running MQA on a standalone basis:

- MQA currently has no employees. The senior Macquarie executives currently servicing MQA are not expected to transfer to MQA. The MQA Boards will need to secure the services of appropriately credentialed and experienced personnel. While salary costs can be broadly estimated:
  - MQA is not aware of the current remuneration of all Macquarie employees servicing MQA; and
  - the actual costs will depend on negotiations with the relevant individuals;
- the costs are based on a preliminary assessment of whether certain specific functions are delivered through full time employees or outsourcing (some functions are already outsourced). The assessment is complicated because a number of the Macquarie employees servicing MQA devote only a portion of



their time to MQA (and sometimes only a minor part). Final decisions on these matters will not be made until much closer to termination;

- the new CEO, when appointed, will have responsibility for making decisions about the organisational footprint including:
  - whether functions are delivered in house or outsourced;
  - the configuration and extent of personnel for key functions such as asset management; and
  - the extent of resources devoted to business development.

On the other hand:

- the cost estimates were made having regard to:
  - a detailed analysis of organisational structure, personnel and individual tasks prepared by Macquarie; and
  - analysis of MQA standalone needs prepared by accounting advisers for the independent directors having regard to the Macquarie report, discussions with Macquarie executives and input from other advisers to MQA; and
  - comparisons to comparable organisations and internalisations;
- costs for individual items were based on various sources including remuneration consultants, external (indicative) quotes, current outsourcing costs and internal expertise/knowledge. Existing (non Macquarie) costs were based on the CY18 Expense Budget; and
- there are some built in buffers including a contingency.

#### 4.3.3 Transition Costs

The independent directors have estimated total transition costs of approximately \$12 million. Prior to taking over operations from Macquarie, MQA will need to:

- put its full management team in place;
- organise and contract any outsourcing arrangements;
- design, install and test all systems including, in particular, financial reporting systems; and
- establish other infrastructure (e.g. offices, IT systems, communications equipment).

The transition period (and any specific handover date) is not fixed and is subject to detailed planning as well as being dependent on progress made during the transition period (e.g. early appointment of a CEO could help bring it forward). The independent directors believe that the optimum period is likely to be somewhere between six months and the full twelve months covered by the Proposal, reflecting a balancing of two perspectives:

- the transition should take place as soon as practically possible (even if there is a longer period of “dual costs”). From an organisational point of view, there is little benefit in waiting until the final termination date. It would be preferable for MQA to be in a position to make its own operational decisions (and determine its own strategy) at the earliest date; and
- it is generally better, and ultimately more efficient, to build an organisation at a measured pace rather than rush to achieve unnecessarily tight deadlines. MQA has received advice that a three month transition may be theoretically achievable but has formed the view that this would involve higher costs (e.g. contractors) and would risk having to make compromises that could adversely impact long term outcomes (e.g. in the selection of a CEO).

In considering this cost estimate, it should be noted that it:



- allows for six month's employment for all employees (being an average with some employed early while others may be only brought aboard closer to the handover date);
- allows for six months of outsourced costs;
- includes professional fees for setting up the organisation including:
  - project management;
  - rebuilding financial models;
  - legal and taxation advice; and
  - incremental audit fees;
- includes transaction costs such as advisory, legal and securityholder meeting costs; and
- includes a contingency.

#### 4.3.4 MAF2 Fees

The termination of the MQA Management Agreements will trigger the payment of fees at the MAF2 level. These fees comprise:

- a base fee of €7.4 million (approximately \$11.9 million at current exchange rates<sup>29</sup>) per annum in respect of MAQ's 50.01% interest in MAF2. This fee is fixed and is not dependent on the value of assets under management or indexed (e.g. for inflation); and
- a performance fee equal to 15% of the realised return above 8% per annum. The fee will accrue only after the termination date (i.e. from 16 May 2019) based on fair market value at that time.

#### 4.3.5 Impact on Performance Fees

The Proposal:

- eliminates the performance fee currently payable by MQA under the MQA Management Agreements (from 1 July 2018); but
- will trigger a performance fee payable under the MAF2 Advisory Agreement (from termination).

MQA has incurred significant performance fees under the MQA Management Agreements over the last eight years (over \$200 million in total):

**MQA – PERFORMANCE FEES (\$ MILLIONS)**

	YEAR ENDED 31 DECEMBER								
	2010 <sup>20</sup>	2011	2012	2013	2014	2015	2016	2017	TOTAL
Satisfied	4.2	20.9	20.9	16.7	19.4	19.4	64.1	52.5	<b>218.1</b>
Calculated and accrued									<b>44.7</b>
Calculated but not accrued									<b>15.9</b>

It is not possible to reliably predict future performance fees or to forecast the differential between the MQA performance fee and the MAF2 performance fee. Accordingly, the impact of the Proposal on performance fees cannot be definitively determined.

However, in Grant Samuel's opinion it is likely that MQA securityholders will be financially better off (i.e. pay less performance fees) under the Proposal. The percentage fee (15%) is the same in both cases but:

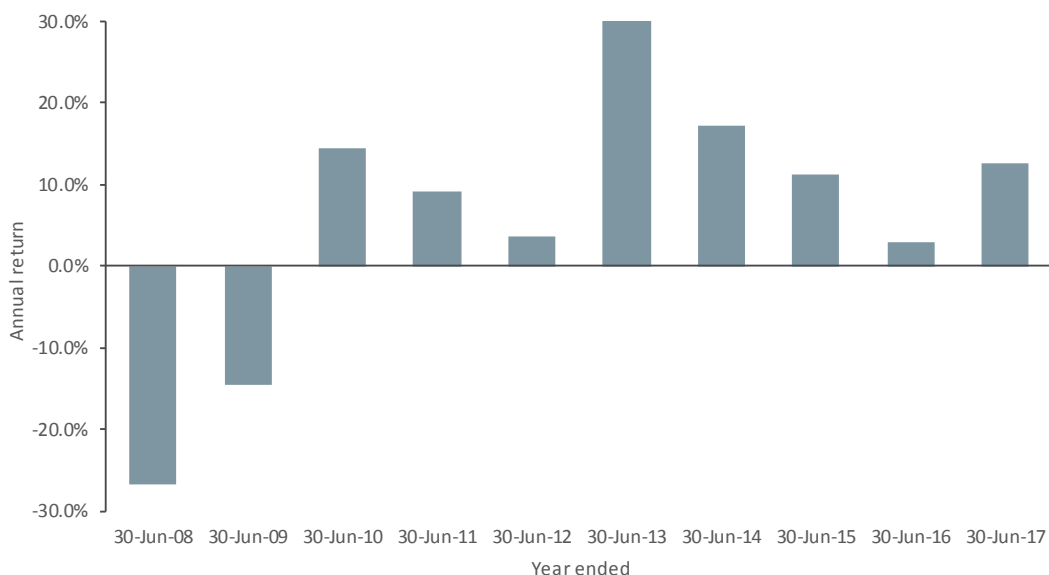
- the new MAF2 fee only applies to the investment in APRR / ADELAC rather than the whole of MQA; and

<sup>29</sup> Calculated using exchange rate of A\$1.00 = €0.62.



- the MAF2 fee has a base return of 8% per annum (cumulative) while the MQA fee has a base return equal to the S&P/ASX 300 Industrials Accumulation Index. It is not possible to reliably predict which one will be a higher hurdle over the medium to longer term. Set out below is a summary of the index performance over various recent periods:

**S&P/ASX 300 INDUSTRIALS ACCUMULATION INDEX – ANNUAL RETURN (% PER ANNUM)**



Source: IRESS and Grant Samuel analysis

**S&P/ASX 300 INDUSTRIALS ACCUMULATION INDEX – CUMULATIVE ANNUAL RETURN (% PER ANNUM)**

	PERIOD ENDED 31 DECEMBER 2017	PERIOD ENDED 30 JUNE 2017
1 year	9.2%	12.5%
3 years	8.3%	8.8%
5 years	12.3%	14.9%
10 years	5.6%	5.0%

Source: IRESS and Grant Samuel analysis

Whether annual returns above or below 8% per annum will be generated in future is unknown. However, the S&P/ASX 300 Industrials Accumulation Index will certainly be more volatile with the potential for sustained periods below 8% (as demonstrated by the history). While the MQA performance fees have a deferred component (up to two years) that is subject to continuing to meet certain performance hurdles, once paid they are not subject to a clawback. In contrast, the MAF2 performance fees are:

- only expected to become payable towards the end of MQA's holding period for the investment in APRR / ADELAC; and
- likely to be far less volatile than the MQA performance fees.

It should also be noted that:

- MQA recently acquired an additional 4.86% indirect interest in APRR. Based on MQA's internal projections, the independent directors consider the level and likelihood of a MAF2 performance fee becoming payable to be an acceptable risk in the context of the internalisation;
- under the Proposal, no performance fees will apply at the MQA or MAF2 level between 1 July 2018 and 15 May 2019; and



- securityholders will be better off to the extent that the current performance fee is based on a benchmark (the S&P/ASX 300 Industrials Accumulation Index) that bears little or no relationship to the underlying business of MQA. In other words, there can be a material misalignment between the factors determining the index performance and factors driving MQA performance (e.g. currency movements).

#### 4.3.6 Financial Analysis

##### (i) Relative to the Status Quo

Based on the cost estimates set out above, the financial benefit of the Proposal on a proforma basis is in the order of \$4-11 million per annum (based only on savings in the Base Fee<sup>30</sup>):

PRO FORMA ANNUAL SAVINGS (\$ MILLIONS)

	LOW	HIGH
<i>Status Quo</i>		
Annual Base Fee (assuming a MQA security price of \$5.60-6.00)	31.9	34.2
Overhead costs (per CY18 Expense Budget)	4.2	4.2
<b>Total</b>	<b>36.1</b>	<b>38.4</b>
<i>Proposal</i>		
Estimated overhead costs	20.0	15.0
MAF2 base fees	11.9	11.9
<b>Total</b>	<b>31.9</b>	<b>26.9</b>
<b>Net annual savings</b>	<b>4.2</b>	<b>11.5</b>

It should be noted that:

- the MQA security price range of \$5.60-6.00 reflects recent trading prices on the ASX. The quantum of the savings are directly related to this variable so security price movements could have a material impact on the analysis;
- the full year effect of the savings will not occur until CY20 (and the net benefit will depend on the MQA security price at that time); and
- reported earnings and cash flows of MQA in CY18 and CY19 will be adversely impacted by transition and transaction costs.

The cost of generating this benefit, relative to the status quo, is approximately \$18-25 million depending on the ultimate timing of the handover and therefore the extent of “dual” running costs:

PRO FORMA INCREMENTAL COST OF PROPOSAL (\$ MILLIONS)

	LATE (12 MONTH TRANSITION)	MID (9 MONTH TRANSITION)	EARLY (6 MONTH TRANSITION)
Transition (ramp up) and transaction costs (up to handover)	12.0	12.0	12.0
Cost of additional transition services (7.5 months at \$750,000 per month)	5.6	5.6	5.6
Overhead costs from handover until termination at \$20 million per annum (6-12 months) while also paying Base Fee (i.e. dual cost)	-	5.0	10.0
Existing overheads (CY18 Expense Budget) included in overhead costs	-	(1.1)	(2.1)
<b>Total implementation cost</b>	<b>17.6</b>	<b>21.5</b>	<b>25.5</b>

<sup>30</sup> For the purposes of this analysis, performance fee differentials have been ignored because it is not possible to make any meaningful or reliable calculations on a forward looking basis (see Section 4.3.5).





There is also potentially some “cost” for securityholders as a consequence of the 2018 Performance Fee, if any, and the third instalment of the 2017 Performance Fee becoming unconditional (not subject to testing) but it is not possible to determine this in advance. On the other hand, no performance fees will apply between 1 July 2018 and 15 May 2019.

In Grant Samuel’s opinion, securityholders are financially better off under the Proposal albeit only marginally in the context of MQA as a whole. At worst, even assuming no performance fee savings, there is a payback period of approximately six years<sup>31</sup> and, if costs are at the low end it would be less than two years. Put alternatively, the net present value of the savings is greater than the cost to implement.

In addition:

- the MAF2 base fees are fixed and the overhead costs can be expected to rise in line with general and wage inflation (plus the costs of any performance based management incentives). In contrast, under the status quo, Base Fees are based on MQA’s market capitalisation. Apart from the volatility this creates, there is clearly potential for these fees to increase much more rapidly than the overhead costs under the Proposal. A 25% uplift in the MQA security price would add roughly \$8 million per annum to the net savings from the Proposal. At the very least, it is reasonable to believe that, having regard to the outlook for earnings and distribution growth for MQA, the status quo management costs would increase at a faster rate than those under the Proposal (assuming no change in the Base Fee rate in the short to medium term). At the same time:
  - a fee based on Market Value has a broad alignment with shareholder returns. For example, it goes down if Market Value declines although, on the other hand, it goes up if capital is raised (irrespective of the return on that capital); and
  - in the longer term as the APRR concession gets closer to the end of life (18 years at present) the fixed MAF2 base fee may cause total overheads to be higher than they would be under the MQA Management Agreements;
- the costs of \$18-25 million are overstated to the extent that the additional transition services will enable some savings in overheads during the period from handover to 31 December 2019; and
- there is likely to be some net savings for securityholders in performance fees (savings at the MQA level compared to the MAF2 fees that will be incurred – see Section 4.3.5 above) which could materially increase the total level of net savings.

## (ii) Relative to Alternatives

The other relevant test for MQA securityholders is to consider how the Proposal compares to the alternative means of internalisation, unilateral termination.

The annualised financial benefit would be the same (i.e. approximately \$4-11 million) and similar operational and strategic advantages would arise. However, unilateral termination would be a “cheaper” alternative to implement as Base Fees would not have to be paid for the full 12 months to 15 May 2019. It is difficult to be precise as to the quantum of this cost saving but the factors to take into account include the following:

- the independent directors considered a unilateral termination option. In their view, the appropriate plan for such a strategy would be to allow a period of approximately six to nine months to build the organisational capability to fully takeover the management of MQA. While it could, if necessary, be achieved in less time (e.g. if forced to by a Macquarie resignation), this was considered imprudent and would involve unnecessary additional one-off costs (e.g. extensive use of contractors). Even a six month program would involve a degree of acceleration relative to the Proposal. Given that MQA is effectively “starting from scratch” with no personnel, no systems and no infrastructure, Grant Samuel considers six months to be a realistic estimate of a sensible time frame for unilateral termination;

<sup>31</sup> Calculated as maximum cost of implementing Proposal (\$25.5 million) divided by minimum annual savings (\$4.2 million).



- assuming the transition service costs are constant and a six month program for unilateral termination, the incremental “cost” of the Proposal is therefore an additional six months of management fees payable to Macquarie (\$16.0-17.1 million based on current security prices) together with the additional transition services of \$5.6 million (7.5 months at \$750,000 per month);
- under a unilateral termination option the MAF2 base fees would be payable from the termination date while, under the Proposal, they do not become payable until 16 May 2019. Accordingly, unilateral termination will cost an additional \$5.95 million (approximately \$11.9 million per annum for 6 months at current exchange rates<sup>29</sup>); and
- as a result of the continued Macquarie services, the Proposal would incur less standalone running costs to the extent the handover took place later than six months and would enable further overhead savings in the period up to 31 December 2019. However, it is difficult to quantify these benefits.

Based on these factors, the incremental cost of the Proposal (relative to unilateral termination) is \$6-17 million:

**INCREMENTAL COSTS OF THE PROPOSAL RELATIVE TO UNILATERAL TERMINATION (\$ MILLIONS)**

	MINIMUM	MAXIMUM
Additional Base Fees (six months based on security price of \$5.60-6.00)	16.00	17.10
Additional transition services (7.5 months)	5.60	5.60
Savings in MAF2 base fees (six months)	(5.95)	(5.95)
Reduced standalone overhead in first year (0-6 months)	(10.00)	-
	<b>5.65</b>	<b>16.75</b>

A nine month period to handover has an incremental cost of approximately \$11 million.

In effect, \$6-17 million is the cost of a smooth transition to self management with co-operation from Macquarie rather than a potentially hostile, uncooperative approach. Clearly, there are significant benefits under the Proposal such as:

- having the existing Macquarie team continue to actively manage the business while the new MQA team is put in place and gets “up to speed”, building its knowledge of the assets and processes, and establishes the necessary external arrangements (e.g. outsourcing, systems, infrastructure);
- continuation of administration services relating to the Luxembourg entities through which MQA holds its investment in APRR;
- extending the availability by Macquarie of certain key members of the senior management currently servicing MQA and other specific services (e.g. Luxembourg administration services) through to 31 December 2019;
- avoiding the possibility of Macquarie simply resigning as manager in which case MQA would only have 90 days to establish a fully functional organisation (although Macquarie would be unlikely to resign prior to 30 June 2018 because it would lose any deferred performance fees). A 90 day period would generate increased transition costs (e.g. extensive use of contractors);
- a longer period to search for and secure the new senior management team and therefore avoid any compromises caused by the shorter deadline of a unilateral termination date; and
- co-operation in the transfer of data and, more importantly, the transfer of general corporate knowledge (e.g. relating to planning and forecasting, corporate and tax structures, reporting flows, timing and templates and financial models) from the Macquarie team to the new MQA team.

Under the MQA Management Agreements, if terminated, Macquarie is only obligated to handover books and records (and do such things as reasonably required to vest in the new manager all rights, duties, responsibilities, obligations and liabilities). The extent of these obligations is unclear (and



untested) but is likely to be limited to handing over accounting records, compliance plans, contracts, secretarial and other legal documentation and other formal files. In a unilateral termination, Macquarie would have no incentive to provide other than the bare minimum. The impact of losing access to all the other knowledge that lies within an organisation could severely impact the new organisation's operational effectiveness.

There is no objective basis on which to assess whether this incremental cost is "worth" it from an MQA securityholder's perspective. However, in Grant Samuel's view, the benefits outweigh the cost. To put it in context, the maximum cost (assessed above) represents approximately 2.5 cents per security (or about 0.4% of the market value of a security). It is not unreasonable to believe that the downside risks from a hostile handover process could amount to more than 2.5 cents per security.

Certainly, if it is characterised as a kind of "facilitation" payment to Macquarie it is not out of line (if not well below) those that have occurred in other transactions (e.g. acquisitions of listed externally managed investment vehicles) taking into account the differences in scale.

### **(iii) Performance Fees**

Under the Proposal:

- the second instalment of the 2017 Performance Fee and the third instalment of the 2016 Performance Fee will be payable immediately after 30 June 2018 if the relevant performance hurdles have been met; and
- the 2018 Performance Fee will be calculated on 30 June 2018 and, if applicable, will be paid in full at that time together with the third instalment of the 2017 Performance Fee (i.e. they are not subject to any performance hurdle).

If a unilateral termination was pursued instead of the Proposal, the actual termination would be expected to occur until towards the end of 2018 (i.e. after 30 June 2018). As a result, under a unilateral termination:

- the second instalment of the 2017 Performance Fee and third instalment of the 2016 Performance Fee payments would be paid immediately after 30 June 2018 in the normal course (i.e. subject to meeting the performance hurdles);
- a 2018 Performance Fee would be calculated at 30 June 2018; and
- all outstanding performance fees would be immediately payable in full upon termination (say late 2018).

Accordingly, there would be no difference in the quantum or conditionality of the Performance Fee payouts between the two alternatives (except for a minor timing difference).

### **4.3.7 Conclusion**

Based on the above analysis, Grant Samuel has concluded that if the Proposal is implemented:

- securityholders are financially better off than under the status quo; and
- the additional costs relative to unilateral termination are justified.

Accordingly, the Proposal is fair.



## 4.4 Reasonableness

### 4.4.1 Conclusion

As the Proposal is fair it is also reasonable but, in any event, there are a number of other advantages and benefits arising from the Proposal. At the same time, there are certain disadvantages, costs and risks. The negative factors are not trivial but, in Grant Samuel's opinion, are substantially outweighed by the advantages and benefits of the Proposal.

### 4.4.2 Advantages and Benefits

The financial benefits (i.e. net cost savings) outlined in Section 4.3 have a number of flow on benefits in terms of higher earnings per security, cash flow per security and dividends per security. Ignoring performance fees, the saving amounts to approximately 1-2 cents per security on an annualised proforma basis. Other things being equal, this should lead to an increase in the MQA security price, albeit minor in the context of MQA as a whole.

The other advantages and benefits of the Proposal, which are arguably more important and would justify internalisation even if the short term financial outcomes were less favourable, include:

#### (i) Reduction in volatility of earnings and cash flows of MQA

By approving the Proposal, securityholders will be exchanging variable base management fees which, being based on MQA's market capitalisation, are both potentially volatile and outside the control of the MQA Boards for a more certain and controllable cost reflecting salary costs and other operational costs.

More importantly, the Proposal eliminates future Performance Fees at the MQA level that are potentially significant but impossible to predict as to quantum or timing and therefore create an element of volatility and unpredictability for the returns to securityholders (these Performance Fees have fluctuated between zero and \$134 million in recent years). This benefit is reduced by the performance fees that will now apply to the investment in APRR (via the MAF2 arrangements) although this fee will be substantially less volatile than the MQA performance fee as it is based on assessed values and a fixed hurdle (8% per annum) (whereas the MQA performance fee is based on exceeding sharemarket returns).

The reduced volatility will be further offset by any incentive scheme that might be granted to MQA's new executive management that is based on securityholder returns (which may be volatile and hence result in increased variability of this component of MQA's operating cost). However, the materiality of any such payments should be far less than potential performance fees.

#### (ii) Controllable costs

If the Proposal is implemented all of the overhead costs of MQA will be within the control of the MQA Boards. At present, the largest component (management fees), is outside their control.

#### (iii) Visibility and control over remuneration

Under an external management model, the entity typically has little or no visibility over (or say in) the remuneration of the executives that manage it. This has been largely the case with MQA. The MQA Boards had some input into performance reviews but had to rely on Macquarie's assurances that staff were appropriately rewarded and incentivised (although it did secure higher levels of input in relation to the current CEO). The Proposal will mean the board has full control over:

- management remuneration levels and structures;
- incentive schemes; and
- performance reviews and the relationship with remuneration.



**(iv) Improved accountability**

The Proposal should result in an improved corporate governance and accountability framework. At present, the management are employees of Macquarie. This means that they are accountable to both MQA securityholders and Macquarie. Following implementation of the Proposal, management will be accountable directly and only to the MQA Boards and MQA securityholders.

**(v) Better alignment of management incentives**

The Proposal is expected to result in clearer alignment of management and securityholder interests, as any new incentive schemes for senior management that are established will be in a more transparent structure that can be linked directly to the performance of MQA.

**(vi) Removal of potential conflicts of interest**

There is a common perception that external managers have an inherent conflict of interest. For example, growing the asset base at the expense of performance or co-investing with other funds operated by the same manager (although performance fees provide competing incentives). Often these are more a matter of perception than reality. Internalisation will eliminate both perception and the actuality of such conflicts of interest.

**(vii) Broader investor support**

Anecdotal evidence indicates that institutional investors favour internalised management structures. Some investors are prohibited from investing in externally managed funds or have policies not to do so. Accordingly, the Proposal may encourage a broader base of investors to invest in MQA increasing demand relative to supply.

**(viii) Potential for rerating**

It is difficult to determine if the MQA security price has an effective discount in it for the external model. However, it is clear from broker reports that some analysts do apply or consider some form of discount or cost of equity penalty.

The Proposal should therefore contribute to a reduction of any such discount although the full removal of the discount would require the ending of the MAF2 Advisory Agreement. In any event, the consequences of the Proposal such as the reduction in volatility and better predictability of net earnings due to the elimination of both the Base Fee and, more particularly, the Performance Fee should, other things being equal, contribute to a rerating of MQA, even if only over time.

**(ix) Increased potential for a change of control event**

MQA's attractiveness to potential buyers may currently be hindered by its externally managed structure as well as its complex corporate structure. An internalised management structure should enhance MQA's attractiveness as a takeover target as the bidder will only need to deal with MQA Boards and there will be no leakage to, or need to negotiate with, third parties (i.e. the manager). However, this benefit will likely be further enhanced, if and when, the MAF2 arrangements are restructured.

**(x) Greater flexibility to pursue corporate transactions**

The current externally managed structure may inhibit MQA's ability to pursue other value enhancing transactions such as scrip based acquisitions as some vendors may be unwilling to accept scrip in an externally managed vehicle. The potential rerating of MQA stapled securities would also enhance MQA's ability to pursue transactions. However, it should be recognised that MQA is not currently focused on pursuing such transactions.



**(xi) Third party opportunities**

As a Macquarie managed vehicle, it is possible that other advisers or third parties may be reluctant to approach MQA with projects or other opportunities. The Proposal may therefore open up a greater set of business development opportunities for MQA.

#### **4.4.3 Disadvantages, Costs and Risks of the Proposal**

The disadvantages, costs and risks for MQA securityholders if the Proposal is approved include:

**(i) Risks in establishing a new organisation**

MQA will need to create an organisation capable of running the business following approval of the Proposal. This task will encompass:

- appointment of key executives (CEO, CFO, Asset Directors);
- appointment of other staff;
- establishment of governance procedures, financial reporting systems, other systems (e.g. treasury, compliance); and
- establishing offices and associated infrastructure (telecommunications, IT systems, etc).

Most of this should be relatively straightforward and the time frame (up to 12 months) should allow more than adequate capacity for trialling and testing. Nevertheless, there is inevitably some scope for issues to arise.

More importantly, as the current CEO (a Macquarie employee) will not be moving across to MQA, the MQA Boards will need to appoint a new CEO as well as other senior executives. Choosing the right candidate will be a critical decision for the MQA Boards (and an unquantifiable risk).

Achieving the right mix of internal and outsourced resources will also be challenging given the geographic spread of operations and the less than full time requirements for some tasks.

**(ii) Risks as to the ongoing costs of an internalised management model**

The independent directors estimated the incremental costs to MQA from the Proposal by examining in detail existing functions performed by Macquarie, commissioning reports from advisers and, in some cases, obtaining quotes (see Section 4.3.2 for more details). The process involved several iterations and review by the independent directors. However, there is a risk that the incremental costs from internalisation may be higher than those estimated. Anecdotal evidence from other internalisations suggests there is inevitably upward pressure on costs post internalisation. At the same time, these costs would need to increase significantly to reach the anticipated level of management fee savings.

**(iii) Loss of access to Macquarie expertise and management resources**

By implementing an internalised management model, MQA management will no longer be part of the Macquarie organisation and will not be able to directly access its support and resources.

Macquarie is a global leader in the management of infrastructure assets and, in particular, has extensive experience and expertise in owning and managing toll roads.

Under the present structure, Macquarie has the obligation to provide the full management team. If any member of the team leaves or needs to be replaced, given the size and resources of the organisation, it should be able to source replacement executives even at CEO or CFO level relatively quickly. In contrast, if the Proposal is implemented, MQA will be responsible for supervising all staff and for identifying and securing replacement executives (and managing any transitions/handovers). The MQA Boards will be responsible for developing appropriate succession plans for senior executives.

MQA will also no longer have automatic access to Macquarie's investment opportunities (except as an arm's



length client). However, given MQA's stated position of focussing on its existing assets, it is unlikely that MQA would be pursuing acquisition opportunities in the near term.

**(iv) Transaction costs**

One off transition and transaction costs related to the Proposal are estimated by the independent directors at approximately \$12 million. Of these costs, around \$3.5 million will have been incurred by the date of the securityholder meeting.

These costs have been included in the measurement of the net savings from internalisation (see Section 4.3). As a result of these one-off costs, the actual impact on reported earnings for CY18 and CY19 is likely to be slightly negative.

**(v) No Resolution of MAF2 Arrangements**

The Proposal only terminates Macquarie's role at the MQA level. It does not deal with the situation at MAF2. Macquarie will remain in place as the manager of MAF2 under its existing contract. Moreover, the termination of Macquarie at the MQA level triggers:

- base management fees at the MAF2 level, which amount to approximately \$11.9 million per annum for MQA at current exchange rates<sup>29</sup>; and
- a performance fee at the MAF2 level, which may become payable to Macquarie, depending on future performance.

These arrangements are detailed in Section 3.3. The MAF base fee component is taken into account in calculating the net savings (see Section 4.3.6 above). The financial impact of the performance fee is considered in Section 4.3.5.

While the MAF2 arrangements are not resolved under the Proposal, it needs to be recognised that:

- Macquarie's management contract for MAF2 has an indefinite term;
- Macquarie can only be removed as manager by an 85% vote of MAF2's shareholders. Other Macquarie managed funds own 16% of MAF2 and are therefore able to block any such resolution; and
- even if MQA could terminate Macquarie from MAF2, there are material adverse consequences as a result of the call option which gives Eiffage the right to acquire MAF2's interest in APRR if Macquarie ceases to be the manager of MAF2. While the exercise price is "fair market value" as defined in the FE Shareholders Agreement, this process has potential to disadvantage MQA securityholders both as a result of the price received and the loss of potential investment returns going forward.

Accordingly, MQA has limited options in dealing with the MAF2 situation at the present time. Restructuring the MAF2 arrangements could be complex, involving multiple additional parties including Eiffage and may be time consuming. This process could easily add months to the internalisation timetable and there is no certainty that an acceptable outcome would be achieved.

In the view of the independent directors and their advisers:

- there are attractions in acting quickly to at least terminate the MQA Management Agreements as soon as possible;
- the termination of the MQA Management Agreements is beneficial for securityholders even without restructuring the MAF2 arrangements; and
- while there is a desire to restructure the MAF2 arrangements, this need not be completed in parallel with terminating the MQA Management Agreements and can be addressed at a later date.



#### 4.5 Securityholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to securityholders in relation to the Proposal, the responsibility for which lies with the independent directors.

In any event, the decision whether to vote for or against the Proposal is a matter for individual securityholders based on each securityholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, investment strategy and portfolio structure. If in any doubt as to the action they should take in relation to the Proposal, securityholders should consult their own professional adviser.

Similarly, it is a matter for individual securityholders as to whether to buy, hold or sell securities in MQA. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Proposal. Securityholders should consult their own professional adviser in this regard.





## 5 Qualifications, Declarations and Consents

### 5.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 545 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson BCom MCom(Hons) CA SF Fin and Caleena Stilwell BBus FCA F Fin GAICD. Each has a significant number of years of experience in relevant corporate advisory matters. Giorgio Spagnolo BSc(Finance) MSc(Finance) and Nicholas Christie BCom assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### 5.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposal is fair and reasonable to, and in the best interests of, MQA securityholders. Grant Samuel expressly disclaims any liability to any MQA securityholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by MQA and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

### 5.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with MQA or Macquarie or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.

Grant Samuel commenced analysis for the purposes of this report in March 2018 prior to the announcement of the Proposal. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Proposal.

Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$250,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.



## 5.4 Declarations

MQA has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving fraud, gross negligence, wilful misconduct or breach of contract by Grant Samuel. MQA has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by MQA are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been fraudulent, grossly negligent, engaged in wilful misconduct or breach of contract, Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to MQA and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

## 5.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to securityholders of MQA. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

## 5.6 Other

The accompanying letter dated 9 April 2018 forms part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

9 April 2018

*Grant Samuel & Associates*

## Annexure 2 – MQA independence criteria

A director will be considered independent if they:

- are not a member of management; and
- are free from any interests or relationships that could materially interfere with the director's ability to act in the best interests of MQA and independently of management.

The independence of each Non-Executive Director (“**NED**”) is considered before appointment and then confirmed annually by the Board.

Prior to any determination of independence by the Board, each NED must declare whether they have any interests or relationships which could interfere with the director's ability to act independently in the best interests of MQA, including relationships with Macquarie and any relationships of close family members with MQA or Macquarie.

A NED will normally be considered independent if they:

- are not a substantial shareholder in MQA or Macquarie or of a company holding more than 5% of Macquarie or MQA voting securities, and are not otherwise directly associated with such a securityholder;
- have not, within the last 3 years:
  - been employed in an executive capacity by MQA or Macquarie or any of their corporate group members, or been appointed as a director after ceasing to hold such employment;
  - been a partner, director or senior employee of a material professional adviser to MQA or Macquarie;
  - had a material business relationship with MQA or Macquarie, including as a supplier or a customer, or been an officer of, or otherwise associated with, someone with such a relationship;

- do not hold any material contractual relationships with MQA or Macquarie or any of their corporate group members other than as a director;
- are not a director of more than two Macquarie managed vehicle head boards (stapled entities count as one group);
- do not have any other interests or relationships (including close family ties) with any person who falls within any of the categories described above, that could materially interfere with the director's ability to act in the best interests of MQA and independently of management.

Each director's declaration, tenure and materiality of interests is reviewed by the Nomination and Governance Committee. Materiality is assessed taking into consideration each individual director's circumstances, as well as those of any supplier, customer or advisor and any other significant relationships with MQA, Macquarie or any of their corporate group.

Any potential conflicts which may arise out of disclosed business relationships or interests are dealt with by the MQA Boards in accordance with their guidelines dealing with conflicts of interests.

A director who is or has been a partner, director, or senior employee of a professional adviser within the last three years, will not participate in any consideration of the possible appointing of that professional adviser and will not participate in the provision of any service to MQA or Macquarie or any group members.

If any independent director serves on two Macquarie managed vehicles or has been determined by the relevant Board as independent despite not satisfying all the criteria mentioned above this will be noted in their descriptions in any MQA public disclosures and reasons will be provided for any independence determination.

