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15 May 2018

ASX RELEASE

Macquarie Atlas Roads

2018 AGM Chairpersons' Opening Address

Dr Nora Scheinkestel, Chairman, Macquarie Atlas Roads Limited

Mr Jeffrey Conyers, Chairman, Macquarie Atlas Roads International Limited

This year's Annual General Meeting (AGM) is noteworthy for our securityholders as we contemplate a significant change in the structure of Macquarie Atlas Roads (MQA).

As most securityholders are aware, MQA has had a clear objective since we started out in January 2010: to recover and build value in the portfolio we inherited and to maximise returns to our securityholders.

At the time of listing in 2010, MQA had a portfolio of complex and challenged assets which required intensive management. An external management arrangement with Macquarie brought the requisite expertise and depth of knowledge to address the complexity of issues we faced.

Since then, the MQA Boards have continually assessed our management structure and in November 2017, following the streamlining and consolidation of our portfolio, the Boards decided that it was the appropriate time to transition to an internalised management structure.

On 9 April 2018, we announced the terms and transition process for the internalisation of our management team. I will refer to these as the Internalisation Proposal.

Today we are asking you to vote on the Internalisation Proposal. If approved, it will be an important next step in the evolution of MQA, including the introduction of our new identity as Atlas Arteria.

Agenda

I will proceed as follows:

- Highlights of MQA performance in 2017
- Growth in our distributions
- Details of the Internalisation Proposal
- Our approach to sustainability
- Our strategy and focus going forward.

MQA performance in 2017

Since inception in 2010, MQA has delivered a compound annual total return of 36% to securityholders. Over the same period, our market capitalisation has increased nearly 15 times from A\$278 million to over A\$4 billion today.

Over the last eight years, under Macquarie's management, MQA divested assets, turned others around and consolidated its portfolio. We have now simplified our investment proposition to a portfolio of four assets, delivered continued distribution growth to securityholders and enhanced the value of our portfolio.

2017 was a transformative year for MQA. We completed two acquisitions, consolidating our position in our two key assets. As noted at last year's AGM, early last year we acquired the remaining 50% interest in the Dulles Greenway, our toll road in Virginia in the United States. The acquisition consolidated our holding and brought our total estimated economic interest to 100%. While traffic has declined in recent months, having operational control has significantly improved our ability to take important initiatives to enhance the Dulles Greenway's value over the longer term.

Later in the year, in September 2017, we announced the acquisition of a further interest, just under 5%, in our French motorway network, APRR, bringing our total holding in that asset to 25%, which represents an interest of just over 50% in the MAF holding vehicle. This also resulted in an increase in our ADELAC holding to slightly over 25%. APRR is a high-quality asset that continues to perform strongly. APRR has benefitted from both favourable economic conditions and debt markets. We continue to work closely with our fellow shareholders in the APRR Group to address ongoing network and financing opportunities.

We continued the divestment of non-core assets throughout the year, including, in May 2017, our remaining nominal interest in the M6 Toll road in the United Kingdom.

Reflecting the growth experienced over the last eight years, MQA entered the S&P/ASX 100 index in March 2017 and we currently sit in the top 75 listed Australian companies.

Our asset portfolio finished 2017 with another year of positive performance. On a proportionately consolidated basis, aggregate traffic increased 2.7%, revenue increased 3.9% and EBITDA increased 4.8% on the prior year.

Distribution growth

Distributions to securityholders grew again in 2017. Underpinned by strong operating performance at APRR, MQA paid distributions of 20 cents per security (cps), an increase of 11% compared to 18 cps in 2016.

Earlier this year, we upgraded our 2018 distribution guidance to 24 cps, representing an increase of 20% on 2017. We have already paid the first half 2018 distribution of 12 cps and, subject to asset performance, foreign exchange movements and future events, we anticipate paying a further 12 cps for the second half of 2018.

Internalisation Proposal

So let me now turn to the Internalisation Proposal. In November 2017, the Boards of MQA announced that, with the rationalisation of the portfolio and the transition to either 100% or positions of significant influence in our key investments, it was now appropriate to transition to internalised management. Independent board committees (IBCs) were set up to consider this matter and, in early April 2018, the IBCs announced that we had reached an agreement with Macquarie on the terms of how the transition would proceed. That agreement is the subject of the Internalisation Proposal resolutions before you today.

Details of these arrangements are set out in the Explanatory Memorandum that was forwarded to all securityholders with this year's Notices of Meeting.

Let me provide a brief summary. If the Internalisation Proposal is approved today:

- 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 today's AGM. During this period, base management fees will be paid to Macquarie at the current rate of 0.85% of MQA's market value.

- Final performance fees under the existing MQA management agreements will be calculated at 30 June 2018 and payable shortly thereafter. These will comply with the terms of the existing agreements but will be calculated as if the MQA management agreements were being terminated on 1 July 2018. This means that:
 - a final performance fee will be calculated for the year ending 30 June 2018 and, if earned, will be paid in full at that time;
 - two instalments of prior year fees which are still subject to performance hurdles, the third instalment of the 2016 performance fee and the second instalment of the 2017 performance fee, will be tested on 30 June 2018; and
 - the third instalment of the 2017 performance fee will become payable without further performance testing as the Macquarie arrangements will terminate by May 2019, prior to the next testing date.
- MQA will pay Macquarie for specific transition services from 16 May 2019 until 31 December 2019, for a fee of A\$750,000 per month.

In negotiating these arrangements, the IBCs considered it a key priority to ensure a smooth transition to our new internalised management team. As detailed in the Internalisation Proposal, Macquarie will continue to provide its existing management services while MQA concurrently develops its own management capability.

On 23 April 2018, we took an important step in beginning that process by announcing the appointment of Graeme Bevans as our CEO elect, subject to the passing of the resolution on internalisation today. Graeme brings a very deep understanding of the global infrastructure arena and its emerging trends. He has played a leading role in the creation of two internationally significant infrastructure funds which have delivered strong performance under his leadership. He has deep experience with complex joint venture arrangements both locally in Australia and overseas, particularly in Europe and the Americas. He has a very disciplined process for assessing value in new opportunities and excellent capital market skills. We believe he is well equipped to lead MQA in this next stage of our development.

If the internalisation is approved, Graeme's immediate focus will be to establish MQA's new management team along with the necessary infrastructure, systems and processes in order to run our operations independently and separately from Macquarie. Meanwhile the existing Macquarie team, led by our CEO James Hooke, will continue to run the business and provide the full suite of services to MQA.

We believe this division of responsibility will ensure continued focus on MQA's strategic objectives and no loss of momentum on activities at the asset level during the transition period.

Lastly, reflecting these changes, we are proposing to change our name to Atlas Arteria. The new name reflects both our history in 'atlas', our global portfolio and references integrated systems and networks delivering energy and direction.

As detailed in the Explanatory Memorandum, 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 after 30 June 2018.

- Internalisation will provide transparency of the alignment of the management team to the interests of MQA as they will be employed and remunerated directly by us and will be solely focused on MQA's core business and strategy. Full details of the remuneration of key management personnel will be disclosed in our remuneration report in future.
- 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 funds.

There are also risks and costs associated with the Internalisation Proposal, as detailed in our Explanatory Memorandum.

As we stated in the Explanatory Memorandum, on an internalised basis, the IBCs estimate that the costs of running MQA with an internalised management will be approximately ~A\$15-A\$20 million per year compared to approximately A\$33 million in 2017 and A\$35 million for 2018, assuming the current security price. We also estimate additional one-off transition costs of approximately A\$12 million.

From May 2019, MQA will pay Macquarie a fixed management fee for managing MQA's interest in APRR, which has previously been waived. In contrast to our management fees which are tied to market capitalisation, these fees are fixed and at current exchange rates will be approximately A\$11 million per annum.

Overall we expect there to be a management cost saving to securityholders on an ongoing basis.

The IBCs appointed Grant Samuel to independently assess the Internalisation Proposal and they have concluded that the proposal is fair and reasonable and in the best interests of securityholders.

Grant Samuel have stated that they believe securityholders are better off from a financial perspective, even before allowing for any performance fee savings. But even if the short term financial benefits were less positive, the operational and strategic advantages which I mentioned earlier would still, in their opinion, warrant implementing the internalisation.

Securityholders will have an opportunity to ask any questions about the Internalisation Proposal later in the meeting.

Sustainability

I now want to spend a few minutes talking about our ongoing work in relation to environmental, social and governance (ESG) issues, both at the corporate level and at our portfolio assets.

Our approach has focused on six key areas that we consider have the potential to impact our portfolio and are therefore critical to our ability to deliver sustainable growth. These focus areas are safety, climate change and the environment, people and diversity, supply chain, community and technology.

To give you just a few snapshots from our work in these areas:

- All our portfolio roads are monitored 24 hours a day. At APRR, the number of accidents resulting in injuries or fatalities has more than halved since 2003, while in 2017 both the Dulles Greenway and Warnow tunnel had zero lost time injury frequency rates and zero fatalities.
- We were pleased that APRR once again achieved customer satisfaction ratings above 95% for 2017, reflecting the continued focus on operational initiatives to improve user safety and experience across the motorway network. APRR has been able to leverage technological advancements to ensure that an electrical charging station is available every 50 kilometres, on average, along the network and that 20% of APRR's electricity is produced from renewable energy sources.

- Over 3,400 people are employed by our portfolio companies. All these companies promote equal opportunity, diversity and continuous learning, with more than 75% of employees receiving developmental training in 2017.
- Over 10,300 hectares of green corridors are maintained across our portfolio assets. These include the wetlands maintained around the Dulles Greenway which represent a 2-for-1 replacement ratio for wetlands forested during its construction.
- Employees at our portfolio companies also have a strong commitment to the local community. For example, at the Warnow Tunnel, management maintains an active calendar of community events and education programmes, in addition to donating funds and time to local organisations.

Our 2017 ESG report has increased information and interactive features and I encourage all securityholders to read the report on our website where there are more details and case studies of initiatives at each of our portfolio assets.

Delivering on strategy

In conclusion, internalisation will not change our strategy. We seek to invest in global infrastructure assets that offer access to long-dated, predictable and growing cash flows, to deliver growing distributions and enhance the value of our portfolio for securityholders.

We strive to achieve this through:

- Driving improved operational performance and user experience at our existing assets through active operational management; and
- Disciplined capital management by investing in our portfolio assets and through debt restructuring or refinancings.

Macquarie, as our manager, has created significant value for our securityholders over the last eight years through delivery of this strategy and through the consolidation and simplification of our portfolio.

Subject to the passing of the resolutions we will consider later this morning, the year ahead will see Atlas Arteria move to independent existence but with no less of a commitment to deliver value to our securityholders.

On behalf of the Boards, I'd like to thank our management team, both here in Australia and around the world, for their efforts over the past year which have delivered these outcomes. It is the group's strong performance which has positioned us to be able to take this next step to internalise management.

My personal appreciation also goes to my fellow directors who have worked particularly hard to deliver the Internalisation Proposal before you today.

The Boards and management team thank you, our securityholders, for your continued support of MQA.

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