

Atlas Arteria

(formerly Macquarie Atlas Roads)

Financial Report for the year ended 31 December 2018

This report comprises:

Atlas Arteria International Limited (formerly Macquarie Atlas Roads International Limited) and its controlled entities

Atlas Arteria Limited (formerly Macquarie Atlas Roads Limited) and its controlled entities



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Atlas Arteria International Limited
Atlas Arteria Limited

Important Notice

Atlas Arteria (“ALX”) (formerly Macquarie Atlas Roads) comprises Atlas Arteria International Limited (Registration No. 43828) (“ATLIX”) (formerly Macquarie Atlas Roads International Limited) and Atlas Arteria Limited (ACN 141 075 201) (“ATLAX”) (formerly Macquarie Atlas Road Limited). ATLIX is an exempted mutual fund company incorporated and domiciled in Bermuda with limited liability and the registered office is Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda. ATLAX is a company limited by shares incorporated and domiciled in Australia and the registered office is Level 7, 50 Martin Place, Sydney, NSW 2000, Australia. Macquarie Fund Advisers Pty Limited (ACN 127 735 960) (AFS License No.318123) (“MFA”) is the adviser/manager of ATLIX and ATLAX. MFA is a wholly owned subsidiary of Macquarie Group Limited (ACN 122 169 279) (“MGL”).

None of the entities noted in these reports 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.

These reports are not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in ALX, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

MFA as adviser/manager of ATLIX and ATLAX is entitled to fees for so acting. MGL and its related corporations (including MFA), ATLAX and ATLIX together with their officers and directors may hold stapled securities in ALX from time to time.

Atlas Arteria International Limited
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Directors' Reports

The directors of Atlas Arteria International Limited ("ATLIX") (formerly Macquarie Atlas Roads International Limited) submit the following report together with the Financial Report of Atlas Arteria ("ALX" or the "Group") (formerly Macquarie Atlas Roads) for the year ended 31 December 2018.

An ALX stapled security comprises one ATLIX share 'stapled' to one Atlas Arteria Limited ("ATLAX") (formerly Macquarie Atlas Roads Limited) share to create a single listed security traded on the Australian Securities Exchange ("ASX"). The stapled securities cannot be traded or dealt with separately.

AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements* require one of the stapled entities of a stapled structure to be identified as the parent entity for the purpose of preparing a consolidated Financial Report. In accordance with this requirement, ATLIX has been identified as the parent entity of the consolidated group comprising ATLIX and its controlled entities and ATLAX and its controlled entities ("ATLAX Group"), together comprising ALX.

The directors of ATLAX submit the following report together with the Financial Report of the ATLAX Group for the year ended 31 December 2018.

Macquarie Fund Advisers Pty Limited (the "Adviser/Manager" or "MFA") acts as the adviser for ATLIX and the manager of ATLAX.

Directors

The following persons were directors of ATLIX during the whole of the year and up to the date of this report:

- Jeffrey Conyers (Chairman)
- James Keyes
- Christopher Leslie
- Nora Scheinkestel
- Derek Stapley

The following persons were directors of ATLAX during the whole of the year and up to the date of this report (unless otherwise stated):

- Nora Scheinkestel (Chairman)
- David Bartholomew (Appointed on 1 October 2018)
- Richard England (Resigned on 30 November 2018)
- Debra Goodin
- Jean-Georges Malcor (Appointed on 1 November 2018)
- John Roberts (Resigned on 28 September 2018)

Operating and financial review

Principal activities

The principal activity of the Group and the ATLAX Group (together, the "Groups") is to invest in infrastructure assets in Organisation for Economic Co-operation and Development ("OECD") and OECD equivalent countries; and non-infrastructure assets where ancillary to a major infrastructure investment but with the current focus on toll road investments, both greenfield and mature. Other than as disclosed elsewhere in these reports, there were no significant changes in the nature of the Groups' activities during the year.

Distributions

Distributions paid to security holders were as follows:

| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
|---|-------------------------------------|-------------------------------------|
| Distribution of 12.0 cents per stapled security ("cps") paid on 5 October 2018 ¹ | 81,992 | - |
| Dividend of 12.0 cps paid on 13 April 2018 ² | 80,375 | - |
| Dividend of 10.0 cps paid on 29 September 2017 ³ | - | 58,188 |
| Distribution of 10.0 cps paid on 7 April 2017 ⁴ | - | 57,294 |
| | 162,367 | 115,482 |

1. Comprised a capital return of 11.3 cps and an unfranked Australian ordinary dividend of 0.7 cps. The distribution was paid in full by ATLAX.
2. Comprised an ordinary dividend of 12.0 cps. The dividend was paid in full by ATLIX.
3. Comprised an ordinary dividend of 10.0 cps. The dividend was paid in full by ATLIX.
4. Comprised a capital return of 9.8 cps and an ordinary dividend of 0.2 cps. The distribution was paid in full by ATLIX.

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Directors' Reports (continued)

Operating and financial review (continued)

Review and results of operations^{1,2,3}

The performance of ALX and the ATLAX Group for the year, as represented by the results of their operations, was as follows:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Revenue and other income from operations | 145,987 | 473,001 | 5,764 | 68,166 |
| Operating expenses | (222,458) | (104,343) | (17,795) | (8,493) |
| Finance costs | (108,920) | (53,795) | - | - |
| Share of net profits/(losses) of investments accounted for using the equity method | 246,141 | 187,971 | (4,801) | (626) |
| Income tax (expense)/benefit | (898) | 16,749 | 1 | (1,664) |
| Profit/(loss) from operations after income tax | 59,852 | 519,583 | (16,831) | 57,383 |
| Profit/(loss) attributable to: | | | | |
| Equity holders of the parent – ATLIX | 76,683 | 462,200 | - | - |
| Equity holders of other stapled entity – ATLAX (as non-controlling interest/parent entity) | (16,831) | 57,383 | (16,831) | 57,383 |
| Profit/(loss) attributable to stapled security holders | 59,852 | 519,583 | (16,831) | 57,383 |
| | Cents | Cents | Cents | Cents |
| Basic profit/(loss) per ALX stapled security | 8.84 | 87.66 | (2.49) | 9.68 |
| Diluted profit/(loss) per ALX stapled security | 8.84 | 87.66 | (2.49) | 9.68 |

- On 20 September 2018 ("WQG Acquisition Date"), ALX completed the acquisition of the remaining 30% equity interest and shareholder loan in Warnowquerung GmbH & Co KG, the concessionaire of Warnow Tunnel and its general partner Warnowquerung Verwaltungsgesellschaft mbH (collectively "WQG"). WQG's results are consolidated from the WQG Acquisition Date in the current year.
- On 16 May 2017 ("TRIP II Acquisition Date"), ALX completed the acquisition of the remaining 50% estimated economic interest in Toll Road Investors Partnership II ("TRIP II"), the concessionaire for Dulles Greenway. TRIP II's results were consolidated from the TRIP II Acquisition Date in the prior year and for the entire period in the current year.
- On 24 October 2017, ALX acquired an additional 4.86% indirect interest in APRR via Macquarie Autoroutes de France 2 SA ("MAF2") bringing its indirect economic interest to 25.00%. ALX's share of the results of its non-controlled toll road assets are disclosed as share of net profit of investments accounted for using the equity method.

ALX's profit after income tax for the year ended 31 December 2018 was \$59.9 million (2017: \$519.6 million). The movement in results for the year reflects the following significant items:

- Revenue and other income from operations of \$146.0 million (2017: \$473.0 million) has decreased due to:
 - The non-recurrence of the one-off gain on revaluation of the original investment in Dulles Greenway in the prior year of \$375.6 million; which is partly offset by
 - The consolidation of a full year of TRIP II's toll revenue of \$121.2 million (2017: \$75.7 million);
 - The consolidation of WQG's toll revenue of \$5.7 million from WQG Acquisition Date; and
 - Gain on revaluation of the original investment in WQG of \$13.5 million (2017: Nil).
- Operating expenses of \$222.5 million (2017: \$104.3 million) have increased due to:
 - An increase in performance fee expense to \$70.6 million (2017: \$8.0 million). The current year expense was calculated in accordance with, and due to the renegotiation of, the management agreements and reflects the full 2018 performance fee of \$54.7 million and the second and third instalments of the 2017 performance fee totalling \$15.9 million. In the prior year, only the first instalment of the 2017 fee was required to be recognised due to the level of outperformance against the benchmark. A total performance fee liability of \$115.3 million was payable at 30 June 2018, of which \$25.0 million was settled in cash and \$90.3 million was settled through a subscription of new ALX securities in July 2018.
 - Management internalisation expenses of \$10.3 million (2017: \$0.5 million).
 - The consolidation of a full year of TRIP II's expenses of \$90.8 million (2017: \$53.2 million).
 - The consolidation of WQG's expenses of \$3.8 million from the WQG Acquisition Date.

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Directors' Reports (continued)

Operating and financial review (continued)

Review and results of operations (continued)

- Finance costs of \$108.9 million (2017: \$53.8 million) include:
 - Consolidation of a full year TRIP II's bond interest expenses of \$71.8 million (2017: \$42.4 million).
 - Consolidation of WQG's interest expenses of \$4.0 million from the WQG Acquisition Date.
 - Interest, amortisation expense and early repayment fees of \$15.7 million (2017: \$10.1 million) up to the date of repayment of the loan facility used to acquire a portion of the remaining estimated 50% economic interest in TRIP II.
 - Interest and amortisation expense of \$6.2 million (2017: \$1.3 million) up to the date of repayment of the loan facility used to acquire a portion of an additional stake in APRR.
 - Interest and amortisation expense of \$9.2 million (2017: Nil) on the new loan facility after refinancing of the APRR asset finance facility and repayment of Dulles Greenway asset finance facility.
- Share of net profit of investments accounted for using the equity method of \$246.1 million (2017: \$188.0 million), primarily comprising:
 - APRR profit of \$246.1 million is up on the prior year (2017: \$192.0 million) primarily reflecting ALX's increased share of profits resulting from the acquisition of the additional 4.86% indirect interest on 24 October 2017. Additional growth is due to foreign exchange, as well as improved performance and the reduction in finance costs following the termination of the Eiffarie swap.
 - Dulles Greenway loss of \$3.9 million included in the prior year up to the TRIP II Acquisition Date.
- Income tax expense of \$0.9 million (2017: benefit of \$16.7 million) includes:
 - WQG's trade tax of \$2.1 million from the WQG Acquisition Date; offset by
 - Amortisation of deferred tax liability recognised on acquisition of TRIP II and WQG of \$1.2 million (2017: \$1.0 million). In 2017, a reduction in deferred tax liability of \$17.5 million was recognised on acquisition of remaining interest in TRIP II due to decrease in United States Federal Income tax rate.
 - Prior year expense includes final tax expense of \$1.7 million on the distribution proceeds relating to the sale of Skyway Concession Company LLC.

Significant changes in state of affairs

Change in management arrangements

Following the announcement of the Boards' intention to internalise the management of ALX in November 2017, ALX reached an agreement with MFA on the terms of the internalisation of management. This agreement was approved by the shareholders at the 2018 Annual General Meeting.

The key terms of the agreement were as follows:

- Macquarie Atlas Roads to change its name to Atlas Arteria and its ticker code from MQA to ALX.
- No consideration to be payable to MFA for terminating the management agreements.
- MFA to remain as the adviser/manager of ALX under the current management arrangements until 15 May 2019 (unless terminated earlier although fees will continue to be paid until that date).
- MFA to provide specific transition services from the date of termination of the management arrangements to 31 December 2019 for a fee of \$750,000 per month from 15 May 2019.
- A final performance fee to be calculated for the year ending 30 June 2018 and, if earned, to be paid in full. The second instalment of 2017 fees and third instalment of 2016 fee to be subject to their respective performance hurdles and tested on 30 June 2018. The third instalment of the 2017 fee to become payable without further testing.
- At the point of the termination of the ALX management agreements, Macquarie Group will start to receive fees for the ongoing management of ALX's interest in APRR.

The Boards have since appointed Graeme Bevans as Chief Executive Officer (CEO) Elect and Nadine Lennie as Chief Financial Officer (CFO) Elect. Graeme and Nadine are working together to establish the necessary infrastructure, systems and processes in order for ALX to manage its own operations independently and separately from Macquarie.

Acquisition of remaining 30% interest in Warnow Tunnel

On 15 August 2018, ALX announced that it had entered into an agreement to acquire the remaining 30% equity interest and shareholder loan in WQG for €3.7 million (\$6.0 million) as gross consideration prior to adjusting for applicable transaction taxes. Financial close for the acquisition was reached on 20 September 2018. This acquisition was funded by existing cash.

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Directors' Reports (continued)

Refinancing of loans

On 31 May 2018, ALX refinanced and increased the APRR asset finance facility from €150.0 million to €350.0 million with revised terms. The APRR asset finance facility was put in place in October 2017 to partially fund the acquisition of an additional stake in APRR.

On 4 June 2018, part of the additional proceeds from the refinanced APRR asset finance facility were used to fully repay the US\$175.0 million Dulles Greenway asset finance facility along with accrued interest up to the date of repayment. Remaining proceeds from the new asset finance facility will be used for general corporate expenses.

In June 2018, ATLIX entered into €350.0 million of interest rate caps expiring June 2023 to hedge the EURIBOR floating rate interest expense on the new APRR asset finance facility.

In the opinion of the directors, there were no other significant changes in the state of affairs during the year.

Likely developments and expected results of operations

No change is contemplated to the principal activities stated on page 4. Comments on the expected outlook for ALX are included in the annual report within the letters from the Chairpersons and Chief Executive Officer.

Events occurring after balance sheet date

Since the balance date, the directors of ATLIX and ATLAX are not aware of any other matter or circumstance not otherwise dealt with in the Directors' Reports that has significantly affected or may significantly affect the operations of the Groups, the results of those operations or the state of affairs of the Groups in years subsequent to the year ended 31 December 2018.

Indemnification and insurance of officers and auditors

During the year, ATLAX paid premiums of \$230,446 and ATLIX paid premiums of \$196,844 to insure the directors and officers of ATLAX and ATLIX. The liabilities insured are legal and defence costs that may be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as directors and officers of ATLAX and ATLIX, and any other payments arising from liabilities incurred by the directors and officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the directors and officers or the improper use by the directors and officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to ATLAX or ATLIX. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. So long as the directors and officers of ATLAX and ATLIX act in accordance with the constitutions and the law, the directors and officers remain indemnified out of the assets of the Groups against any losses incurred while acting on behalf of the Groups.

The auditors of the Groups are in no way indemnified out of the assets of the Groups.

Environmental regulation

The operations of the underlying assets in which the Groups invest are subject to environmental regulations particular to the countries in which they are located.

Each of our portfolio companies is responsible for adopting and maintaining its own environmental and social risk management framework that seeks to adequately ensure compliance with the relevant regulation and standards for environmental and social responsibility (ESR) matters in the country and industry in which the asset operates.

Our ability to control or influence the ongoing management of ESR issues will differ for each asset based on the extent of our control/governance rights at each asset through the level of ownership influence, board representation and regulatory environment.

Regular reporting from each portfolio company to ALX also assists in monitoring compliance with ESR requirements and in the identification of environmental, social and governance issues across ALX's portfolio. The ESR performance of each portfolio company is reported to the ALX Boards regularly, with major environmental and social incidents and governance breaches reportable within 48 hours of occurrence.

Rounding of amounts in the Directors' Reports and the Financial Reports

The Groups are of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the Directors' reports. Amounts in the Directors' reports have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

Application of class order

The Directors' Reports and Financial Reports for ALX and the ATLAX Group have been presented in the one report, as permitted by ASIC Class Order 13/1050 and ASIC Corporations (Stapled Group Reports) instrument 2015/838.

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Directors' Reports (continued)

Information on ATlix directors

| Experience and Directorships | Special Responsibilities | Particulars of director's interests in ALX stapled securities as at | |
|--|---|---|-------------|
| | | 31 Dec 2018 | 31 Dec 2017 |
| <p>Jeffrey Conyers BA (Toronto) Non-Executive Independent Chairman</p> <p>Experience: Jeffrey Conyers is a director of numerous companies in Bermuda and is the former Chief Executive Officer of First Bermuda Securities Limited which provided advisory and execution services on worldwide offshore mutual funds to individuals and local companies based in Bermuda. He is a founding executive council member and deputy chairman of the Bermuda Stock Exchange. Jeffrey has previously served on the boards of MAp Airports International Limited and Intoll International Limited, parts of the previously Macquarie-managed and ASX-listed vehicles MAp Group and Intoll Group respectively.</p> <p>Other current listed company directorships: None.</p> <p>Former listed company directorships in last 3 years: None.</p> | Chairman of Board and Nomination and Governance Committee | 40,000 | 40,000 |
| <p>James Keyes MA (Oxon) Non-Executive Independent Director</p> <p>Experience: James Keyes, is a Bermudan solicitor and barrister with over 25 years' experience. James was a partner in Appleby, one of the largest offshore law firms in Bermuda and held a part time position as Managing Director of Renaissance Capital, an investment bank, until December 2012. James was a director of the Bermudan entity within Transurban Group for six years, as well as a director of a company in the Moto group which operated road service stations in the UK, from which he gained experience in the toll road sector.</p> <p>Other current listed company directorships: Oakley Capital Investments Ltd (LSE:OCI), Catco Reinsurance Opportunities Fund Ltd (LSE:CAT).</p> <p>Former listed company directorships in last 3 years: None.</p> | Chairman of Remuneration Committee | 5,000 | 5,000 |
| <p>Christopher Leslie BCom (Hons) (Melb), CA Non-Executive Director</p> <p>Experience: Christopher Leslie is a senior managing director of Macquarie Infrastructure and Real Assets ("MIRA") based in New York, with 25 years' experience in the acquisition, development and management of infrastructure assets across Australia, Asia and North America.</p> <p>Christopher has extensive experience in the infrastructure sector, having been integral to the expansion of MIRA's infrastructure business in the US since 1999. He has also served as Chief Executive Officer of MIRA's North American series of unlisted infrastructure funds from 2006 to 2016, which collectively raised and invested more than US\$8 billion into infrastructure assets.</p> <p>He is currently a board member of several companies including Puget Energy, Cleco Corporation and InSite Wireless. Christopher is also a member of Chartered Accountants Australia and New Zealand.</p> <p>Other current listed company directorships: None.</p> <p>Former listed company directorships in last 3 years: None.</p> | - | - | - |
| <p>Nora Scheinkestel LLB (Hons) (Melb), PhD, FAICD, Centenary Medal Non-Executive Independent Director</p> <p>Experience: Nora Scheinkestel is an experienced company director having served as chairman and director on public and private sector boards in a wide range of industries and with a long track record in the infrastructure sector. Her background is as a senior banking executive in international and project financing, responsible for the development and financing of major mining and infrastructure projects in Australasia and South East Asia.</p> <p>Other Current listed company directorships: Telstra Corporation Limited, AusNet Services Limited and OceanaGold Corporation.</p> <p>Former listed company directorships in last 3 years: Stockland Corporation Limited (retired March 2018) and Orica Limited (retired December 2015).</p> | - | 78,431 | 78,431 |
| <p>Derek Stapley BA (Glas Cal), CA Non-Executive Independent Director</p> <p>Experience: Derek Stapley, Chairman of the Audit and Risk Committee of ATlix, is a Chartered Accountant with over 30 years' experience and is a former partner with Ernst & Young. Derek has extensive experience as an independent director of several public and private investment funds, insurance companies and private client structures, and he works directly with a diverse range of global retail and institutional investors.</p> <p>Derek's position on other boards, and in particular as Chair of several Audit and Risk Committees, provides ATlix with a deep and current understanding of public company reporting and evolving trends in corporate governance and risk management.</p> <p>Other current listed company directorships: None.</p> <p>Former listed company directorships in last 3 years: None.</p> | Chairman of Audit and Risk Committee | 5,000 | - |

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Directors' Reports (continued)

Information on ATLAX directors

| Experience and Directorships | Special Responsibilities | Particulars of director's interests in ALX stapled securities as at | |
|--|---|---|-------------|
| | | 31 Dec 2018 | 31 Dec 2017 |
| <p>Nora Scheinkestel LLB (Hons) (Melb), PhD, FAICD, Centenary Medal Non-Executive Independent Chairman</p> <p>Experience: Nora Scheinkestel is an experienced company director having served as chairman and director on public and private sector boards in a wide range of industries and with a long track record in the infrastructure sector. Her background is as a senior banking executive in international and project financing, responsible for the development and financing of major mining and infrastructure projects in Australasia and South East Asia.</p> <p>Other current listed company directorships: Telstra Corporation Limited, AusNet Services Limited and OceanaGold Corporation.</p> <p>Former listed company directorships in last 3 years: Stockland Corporation Limited (retired March 2018) and Orica Limited (retired December 2015).</p> | Chairman of Board and Nomination and Governance Committee | 78,431 | 78,431 |
| <p>David Bartholomew BEc (Hons), MBA Non-Executive Independent Director</p> <p>Appointed on 1 October 2018</p> <p>Experience: David Bartholomew is an experienced director in the infrastructure and utilities sector. In addition to being a non-executive director of ATLAX, he currently serves on the boards of Endeavour Energy (the New South Wales electricity distributor), Power & Water Corporation (the multi-utility owned by the Northern Territory Government) and the Saudi Arabia Industrial Investment Company, Dussur. He is also a director of The Helmsman Project, a not-for-profit organisation that provides coaching and development programs for year 9 students, predominantly in western Sydney.</p> <p>Other current listed company directorships: None.</p> <p>Former listed company directorships in last 3 years: Vector Limited (retired November 2018).</p> | Chairman of Remuneration Committee | - | - |
| <p>Jean-Georges Malcor Ecole Centrale de Paris (Eng), Msc (Stanford) Non-Executive Independent Director</p> <p>Appointed on 1 November 2018</p> <p>Experience: Jean-Georges Malcor completed eight years as Chief Executive Officer at CGG (EPA: CGG), a Euronext listed French geoscience company providing services primarily to customers in the global oil and gas industry. Prior to CGG, he spent 25 years at Thales Group (EPA:HO) in France and Australia.</p> <p>Jean-Georges currently serves as a non-executive director on the board and audit and risk committee of STMicroelectronics (NYSE: STM), and as a non-executive director on the boards of ORTEC, a construction and engineering company and Fives, a global industrial engineering group. Jean-Georges is also a Chevalier (Knight) of the French Légion d'honneur Order and National Order of Merit.</p> <p>Other current listed company directorships: STMicroelectronics.</p> <p>Former listed company directorships in last 3 years: CGG (retired April 2018).</p> | - | - | - |
| <p>Debra Goodin BEc (AU), FCA Non-Executive Independent Director</p> <p>Experience: Debra Goodin, who is also Chairman of the Audit and Risk Committee of ATLAX, is an experienced independent director currently serving on the boards of ASX-listed companies APA Group, Senex Energy Limited and Ooh!Media Limited. She is currently also the chairperson of the Audit and Risk Committees for these boards. Debra has more than 20 years' senior management experience with professional services firms, government authorities and ASX listed companies across finance, operations, corporate strategy, mergers and acquisitions. She is a fellow of Chartered Accountants Australia and New Zealand.</p> <p>Other current listed company directorships: APA Group, Senex Energy Limited and Ooh!Media Limited.</p> <p>Former listed company directorships in last 3 years: Ten Network Holdings Limited (de-listed November 2017).</p> | Chairman of Audit and Risk Committee | 5,671 | 5,671 |

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Directors' Reports (continued)

Company Secretaries

Andrew Davidson was appointed as the company secretary of ATLIX on 26 April 2018. He has over 15 years of governance and company secretarial experience. Dennika Durrant was the company secretary of ATLIX prior to 26 April 2018.

Christine Williams is a dual company secretary of ATLAX. She is an Executive Director of Macquarie Group Limited and Global Head of Legal for MIRA which she joined in 1998. She is a practising solicitor with over 37 years of governance and transactional legal experience. She has also performed company secretarial roles for various listed property and infrastructure funds for the past 26 years.

Lyndal Coates is a dual company secretary of ATLAX. She joined MIRA in 2009 and has over 17 years of governance and company secretarial experience.

Meetings of directors

The number of meetings of the ATLIX Board, Audit and Risk Committee, Nomination and Governance Committee and Remuneration Committee held during the year ended 31 December 2018, and the numbers of meetings attended by each director are shown below. In addition, ad-hoc committees were also held as required for transactional activity.

| ATLIX Directors | Board | | Audit and Risk Committee | | Nomination and Governance Committee | | Remuneration Committee | | Ad-Hoc Committees ¹ | |
|--------------------|---------------|-------------------|--------------------------|-------------------|-------------------------------------|-------------------|------------------------|-------------------|--------------------------------|-------------------|
| | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended |
| Jeffrey Conyers | 19 | 19 | 6 | 6 | 3 | 3 | 3 | 3 | 19 | 18 |
| James Keyes | 19 | 19 | N/A | N/A | 3 | 3 | 3 | 3 | 14 | 14 |
| Christopher Leslie | 19 | 19 | 6 | 6 | 3 | 3 | N/A | N/A | 5 | 4 |
| Nora Scheinkestel | 19 | 19 | 6 | 6 | 3 | 3 | 3 | 3 | 19 | 19 |
| Derek Stapley | 19 | 18 | 6 | 6 | 3 | 3 | N/A | N/A | 14 | 13 |

1. Ad-hoc committee meetings were held in relation to working groups relating to the internalisation of ALX management as well as portfolio company matters.

The number of meetings of the ATLAX Board, Audit and Risk Committee, Nomination and Governance Committee and People and Remuneration Committee held during the year ended 31 December 2018, and the numbers of meetings attended by each director are shown below. In addition, ad-hoc committees were also held as required for transactional activity.

| ATLAX Directors | Board | | Audit and Risk Committee | | Nomination and Governance Committee | | People and Remuneration Committee | | Ad-Hoc Committees ¹ | |
|----------------------------------|---------------|-------------------|--------------------------|-------------------|-------------------------------------|-------------------|-----------------------------------|-------------------|--------------------------------|-------------------|
| | Meetings Held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended |
| Nora Scheinkestel | 18 | 18 | 6 | 6 | 3 | 3 | N/A | N/A | 18 | 18 |
| David Bartholomew ² | 2 | 2 | N/A | N/A | 1 | 1 | 1 | 1 | 3 | 3 |
| Richard England ³ | 17 | 17 | 6 | 6 | 3 | 3 | 3 | 3 | 12 | 11 |
| Debra Goodin | 18 | 18 | 6 | 6 | 3 | 3 | 3 | 3 | 18 | 18 |
| Jean-Georges Malcor ⁴ | 2 | 2 | 1 | 1 | 1 | 1 | N/A | N/A | 4 | 4 |
| John Roberts ⁵ | 16 | 13 | N/A | N/A | 2 | 2 | 2 | 2 | N/A | N/A |

- Ad-hoc committee meetings were held in relation to working groups relating to the internalisation of ALX management as well as portfolio company matters.
- Appointed as a director of ATLAX effective from 1 October 2018.
- Resigned as a director of ATLAX effective from 30 November 2018.
- Appointed as a director of ATLAX effective from 1 November 2018.
- Resigned as a director of ATLAX effective from 28 September 2018.

Atlas Arteria International Limited
Atlas Arteria Limited

Directors' Reports (continued)

Remuneration Report (audited)

Introduction

On behalf of the ATLAX and ATLIX Remuneration Committees, we are pleased to present the Remuneration Report for the 2018 financial year.

Under the Corporations Act it is only Australian listed companies that are required to prepare a remuneration report. Whilst the obligation to provide a Remuneration Report only applies to ATLAX as an Australian listed company, given the stapled security holding structure, the Boards and Remuneration Committees of both ATLAX and ATLIX have worked together on the Remuneration Report with the disclosures extended to cover ATLIX key management personnel.

Only ATLAX securityholders participate in a non-binding vote on this report, however, detail on ATLIX and ALX as a whole have been included for good corporate governance, as well as details of the:

- Management fee paid to Macquarie under the management agreements;
- Remuneration arrangements of the Macquarie-appointed CEO; and
- Remuneration arrangements for the CEO Elect and CFO Elect as though they were already Key Management Personnel.

Atlas Arteria experienced another year of positive performance in 2018, with our portfolio continuing to deliver growth in business value and distributions for securityholders.

The past year also saw significant corporate structural change. At the 2018 Annual General Meeting, you as our securityholders voted in favour of the agreement to internalise management. Since this time, the Boards have recruited an executive team that will take over from the management of Macquarie Fund Advisers Pty Limited ("Macquarie").

In the months following the agreement to internalise management, the Remuneration Committees have worked to build an effective remuneration and governance structure to prepare the business for internalisation. We have:

- Designed and implemented an executive remuneration framework for our incoming management team;
- Finalised employment terms and contracts for our incoming management team; and
- Undertaken a market review of Non-Executive Director fees.

We take investor feedback seriously and have engaged with investors over the past year in relation to developing the remuneration structure for the new internal management team and reviewing non-executive director fees.

In the current financial year, we look forward to updating you on our progress as we implement our internalisation plan and establish our internal management team and remuneration governance structure. We invite you all to review the full report and thank you for your interest.



David Bartholomew
Atlas Arteria Limited Committee Chair



James Keyes
Atlas Arteria International Limited Committee Chair

This Remuneration Report contains the following sections:

1. Who is covered by this report
2. Key questions
3. FY18 performance highlights
4. Macquarie: Management fees and CEO remuneration
5. Remuneration framework for management post internalisation
6. Non-Executive Director fees
7. Remuneration Governance
8. Statutory Disclosures

Atlas Arteria International Limited
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Directors' Reports (continued)

Remuneration Report (audited) (continued)

1 Who is covered by this report

This Remuneration Report outlines the remuneration framework and outcomes for ATLAX and ATLIX Key Management Personnel ("KMP") and the management arrangements in place with Macquarie for FY18.

For the purposes of this report, KMP are those persons having authority and responsibility for planning, directing and controlling the major activities of Atlas Arteria, directly or indirectly. For the FY18 year, KMP are limited to ATLAX and ATLIX Non-Executive Directors. In addition to the required disclosures, and for the purposes of good governance, this report also contains information on:

- the management fee paid to Macquarie under the Management Agreements;
- the Macquarie appointed CEO; and
- the CEO Elect and the CFO Elect.

Details regarding the individuals covered by this report (outside the Management Agreements) are outlined below:

| Name | Role | Date of appointment |
|--------------------------------|---|---|
| Management | | |
| James Hooke ¹ | Chief Executive Officer | 1 February 2018 |
| Graeme Bevans | Chief Executive Officer Elect | 1 May 2018 |
| Nadine Lennie | Chief Financial Officer Elect | 16 July 2018 |
| Non-Executive Directors | | |
| Nora Scheinkestel | Independent Chairman (ATLAX) and Independent Non-Executive Director (ATLIX) | 17 April 2015 (Director of ATLAX from 28 August 2014) |
| David Bartholomew | Independent Non-Executive Director (ATLAX) | 1 October 2018 |
| Richard England | Independent Non-Executive Director (ATLAX) | 1 June 2010 (retired on 30 November 2018) |
| Debbie Goodin | Independent Non-Executive Director (ATLAX) | 1 September 2017 |
| Jean-Georges Malcor | Independent Non-Executive Director (ATLAX) | 1 November 2018 |
| John Roberts | Non-Executive Director (ATLAX) | 2 February 2010 (retired on 28 September 2018) |
| Jeffrey Conyers | Independent Chairman (ATLIX) | 16 December 2009 |
| James Keyes | Independent Non-Executive Director (ATLIX) | 21 February 2013 |
| Christopher Leslie | Non-Executive Director (ATLIX) | 1 September 2017 |
| Derek Stapley | Independent Non-Executive Director (ATLIX) | 1 June 2010 |

1. James Hooke will cease as CEO upon internalisation.

2 Key questions

In May 2018, securityholders approved the proposal to internalise management and to terminate the management arrangements with Macquarie. Our securityholders have asked us about our management arrangements and the remuneration arrangements for FY18 and following internalisation in FY19.

We have set out below a number of questions that we have received from securityholders and have provided a brief response to each of them. Further detail regarding our remuneration arrangements is outlined in the remainder of this Remuneration Report.

Atlas Arteria International Limited
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Directors' Reports (continued)

Remuneration Report (audited) (continued)

At the AGM, shareholders agreed to internalise management. What has this meant for the existing management arrangements?

Following the announcement of the Boards' intention to internalise the management of ALX in November 2017, ALX reached an agreement with Macquarie on the terms of the internalisation of management. This agreement was approved by the shareholders at the 2018 Annual General Meeting.

The key terms of the agreement were as follows:

- Macquarie Atlas Roads to change its name to Atlas Arteria and its ticker code from MQA to ALX.
- No consideration to be payable to Macquarie for terminating the management agreements.
- Macquarie to remain as the adviser/manager of ALX under the current management arrangements until 15 May 2019 (unless terminated earlier although fees will continue to be paid until that date).
- Macquarie to provide specific transition services from the date of termination of the management arrangements to 31 December 2019 for a fee of \$750,000 per month from 15 May 2019.
- A final performance fee to be calculated for the year ending 30 June 2018 and, if earned, to be paid in full. The second instalment of 2017 fees and third instalment of 2016 fee to be subject to their respective performance hurdles and tested on 30 June 2018. The third instalment of the 2017 fee to become payable without further testing.
- At the point of the termination of the ALX management agreements, Macquarie Group will start to receive fees for the ongoing management of ALX's interest in APRR.

On 2 July 2018, Macquarie and ALX's independent directors agreed that total performance fees for the 2016, 2017 and 2018 years, due as at 30 June 2018, of \$115.3 million (excluding GST) be settled by a combination of equity and cash. Accordingly, 13,476,174 ALX securities were issued to Macquarie's assignee at a price of \$6.700906 per security on 2 July 2018. The remaining performance fee payable of \$25.0 million was settled in cash on 3 July 2018. For further information, see section 4.1

What was the management and performance fee for FY18?

Based on the terms of the ALX management agreement, Macquarie received fees of \$152.1 million (excluding GST), comprising a contractual base fee and performance-based fee as follows:

- Base Management fee: \$36.8 million
- Performance fees (recognised at 30 June 2018): \$115.3 million
 - FY18: \$54.7 million
 - FY17 (instalments 2 and 3): \$16 million, being \$8.0 million each
 - FY16 (instalment 3): \$44.7 million

The base fee is paid in cash and equates to 0.85% of ALX's market value over the last 10 ASX trading days in the relevant calendar quarter. The performance fee is reflective of the total shareholder returns received by ALX investors compared with a target benchmark return. For further information regarding the performance fee, see section 3.2.

Has the internalisation management team commenced? If so, on what basis?

To allow for effective transition to internalised management by May 2019, we commenced recruitment for key roles following shareholder approval to internalise management at the 2018 AGM, with all senior executives having commenced in their roles by the end of 2018. The senior executive team following internalisation comprises:

- Chief Executive Officer – Graeme Bevans
- Chief Financial Officer – Nadine Lennie
- Chief Operating Officer – Vincent Portal
- General Counsel & Company Secretary – Clayton McCormack

The remuneration arrangements of our executive team have been structured to attract high calibre executives and to align management incentives with the successful transition to internalised management and with the short term and long term interests of security holders. For further details of these arrangements for the CEO Elect and CFO Elect, see section 5.

Directors’ Reports (continued)

Remuneration Report (audited) (continued)

What remuneration principles guided the design of the remuneration framework post internalisation?

We developed the following six principles to underpin the management remuneration framework post internalisation. The remuneration principles will help guide how remuneration decisions will be made and remuneration outcomes will be determined.

The executive remuneration framework should be:

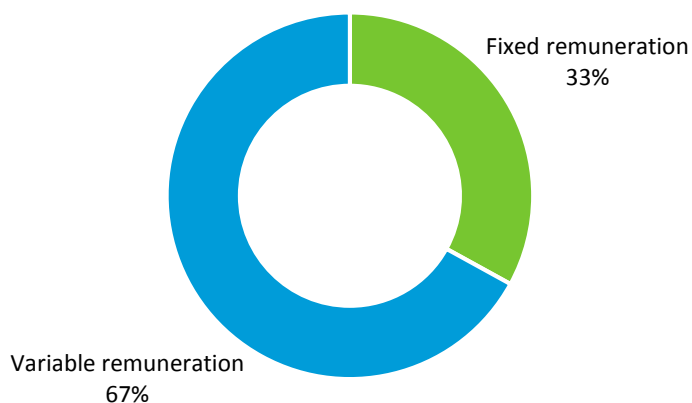
| | Description |
|---|---|
| 1. Simple | Be simple to understand, implement and communicate |
| 2. Balance short and long-term needs | Be able to adapt to meet short-term imperatives during the current period of significant change, but also reflect the long-term needs of the business |
| 3. Reflect role complexity | Reflect the experience of the executive, complexity / nature of the role and the business compared to the market |
| 4. Reflect our values and behaviours | Encourage appropriate behaviours and actions which are aligned to ALX’s business strategy, performance and securityholders |
| 5. Specific and differentiated performance outcomes | Reflect specific performance measures which executives have the ability to influence, and allow for differentiation of executive incentive outcomes |
| 6. Securityholder alignment | Encourage executive equity ownership so that executives have “skin in the game”, aligning executives to securityholder returns |

How will executives be remunerated following internalisation and how is this aligned with ALX performance?

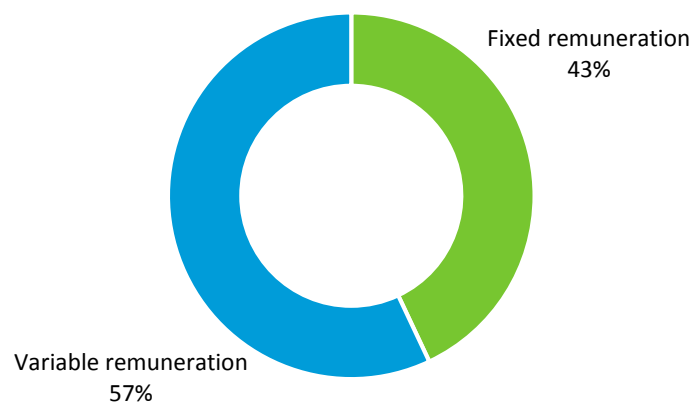
The Boards recognise that to build sustainable long-term growth in securityholder wealth, ALX must attract and retain talented people, and align their interests and behaviours with securityholders’ interests.

To do so, we have developed a remuneration framework that aligns executive remuneration and ALX performance. The framework aims to achieve a balance between fixed and performance-based remuneration and between short and long-term performance incentives. To ensure our remuneration quantum and structure is market competitive, consideration has been given to the market median remuneration of companies of a similar size and complexity to ALX.

CEO Elect



Other senior executives elect



Performance based remuneration comprises both short and long-term performance components:

- For the FY18 short term incentive component, the CEO Elect and CFO Elect will be paid based on the success of achieving key milestones for a successful internalisation on or ahead of plan. Following internalisation, their STI will be paid based on an assessment against a balanced scorecard of financial measures (weighted 70%) and non-financial measures (weighted 30%) linked to business imperatives. For further information regarding the performance measures and STI structure for the CEO Elect and CFO Elect, see section 5.2.

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

- For the long-term incentive component, ALX's Total Securityholder Return ("TSR") performance is assessed relative to a group of local and international companies with similar characteristics to ensure there is alignment between the financial interests of executives and securityholders. The Boards will continue to consider whether the introduction of a second LTI performance measure is appropriate for the future. For further information regarding the LTI structure, performance measure, relative TSR comparator group constituents and vesting schedule, see section 5.3.

Information on governance provisions such as malus, treatment of awards on cessation of employment and change of control are provided in section 7.3.

What happens to variable remuneration awards in the event there is a change of control?

In the event of a change of control, the Boards have absolute discretion to determine the treatment of STI and LTI awards. However, if the Boards do not exercise their discretion, the following default treatments will apply:

- STI: Cash based STI will be assessed on a pro-rata basis and paid at that time based on performance; deferred STI will vest in full on the basis that it relates to performance targets which have already been achieved.
- LTI: Vesting based on performance to the end of the most recent period and pro-rated for time.

What did the CEO Elect and CFO Elect receive during FY18?

The CEO Elect and CFO Elect received fixed remuneration only during FY18.

The CEO Elect and CFO Elect are eligible to participate in the STI which, for FY18, is linked to successful internalisation. The outcome of the FY18 STI award will be determined in FY19, once the internalisation is complete and its success can be determined.

An LTI will apply with respect to FY18. This LTI grant will be tested against the LTI performance targets and, if the targets are met, will vest following the conclusion of the performance period ending 31 December 2020. For further information regarding the LTI performance targets, see section 5.3.

Why have NED fees increased for FY19?

During the 2018 financial year, we undertook a comprehensive market review to determine the level of our fees relative to companies of a similar size and those which operate in similar industries. The review indicated that both our Board and Committee fee levels were low relative to market. As a result, we have made adjustments to our fees for 2019 to make them market competitive. Although the increase in fees is proposed to be effective 1 January 2019, NEDs will not have their fees adjusted until securityholder approval is received for the NED fee pool increases. For further information, see section 6.3.

Why does Atlas Arteria have two Boards?

Although ALX is listed using a stapled structure on the Australian Securities Exchange ("ASX"), meaning that the securities of ATLAX and ATLIX are stapled and must trade and otherwise be dealt with together from a securityholder perspective, the stapling does not detract from the fact that ATLAX and ATLIX remain separate and distinct legal entities. ATLAX and ATLIX accordingly each have their own board of directors, with the ATLAX board being governed by the ATLAX constitution and the ATLIX board being governed by the ATLIX bye-laws. Each company has also adopted its own formal board charter, which sets out the roles and responsibilities of their respective boards as well as each board's composition and membership criteria.

Whilst there are arrangements in place for sharing of information, the adoption of consistent accounting policies and the coordination of reporting to securityholders (details are provided on the ALX website), key decision making is still reserved to the ATLAX board and the ATLIX board respectively, with each board being independently bound by their respective fiduciary duties and each independently retaining ultimate accountability and responsibility to their respective securityholders. Each board is also independently responsible for the overall corporate governance of ATLAX and ATLIX respectively. As a result of ALX's stapled structure, the corporate governance and regulatory requirements of both Australia and Bermuda must be considered, with the boards having to collectively meet the 'highest common standard'. This is in addition to ALX's corporate governance arrangements conforming to the Corporate Governance Principles and Recommendations (3rd edition) issued by the ASX Corporate Governance Council ("ASX Principles").

As part of discharging their respective duties, ATLAX and ATLIX each hold full board meetings at least every two months, with other ad-hoc meetings being called as required. The ATLAX and ATLIX boards have also each constituted a number of separate board committees, including remuneration committees. The ATLAX People and Remuneration Committee and ATLIX Remuneration Committee (together the "Remuneration Committees") each operate under a similar formal charter and each comply with the requirements of the ASX Principles. The Remuneration Committees have overall responsibility for reviewing and recommending the compensation for ALX's key management personnel as well as reviewing and recommending the Remuneration Report.

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

3 FY18 performance highlights

During 2018, ALX continued to deliver solid operational performance resulting in growth of distributions for security holders and strong growth in the share price.

3.1 Atlas Arteria's performance

The following table outlines the distributions for ALX over the past five financial years up to and including FY18. Market capitalisation at 31 December 2018 was over A\$4.2 billion, an increase of over 700% since listing.

| Financial performance | FY14 | FY15 | FY16 | FY17 | FY18 |
|-----------------------|-------|-------|-------|-------|-------|
| Distributions (cps) | 13.20 | 16.00 | 18.00 | 20.00 | 24.00 |

ALX security price¹



1. Source: ASX

3.2 Atlas Arteria's financial performance as it relates to the Macquarie Management fee

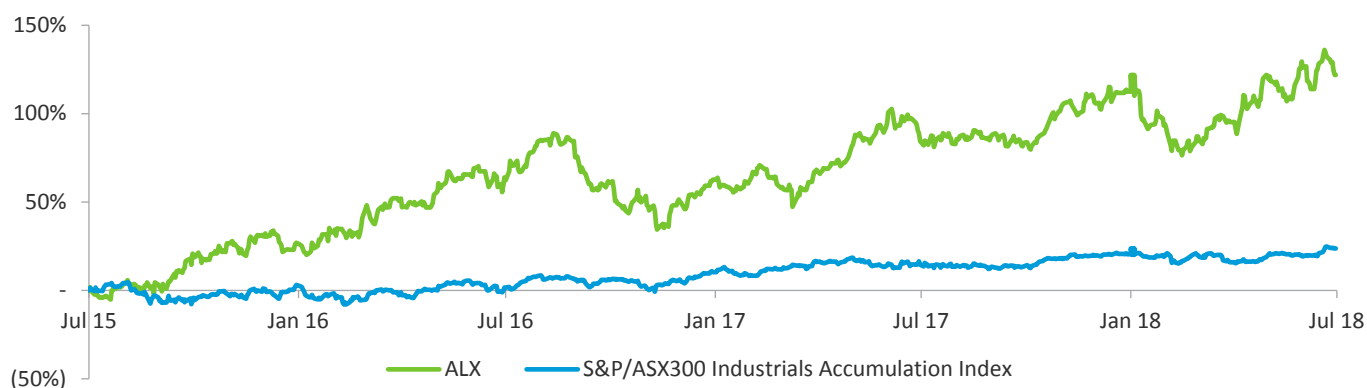
Macquarie Management fee

For 2018, the fees paid or payable are as follows:

- Base fee: \$36.8m, being 0.85% of ALX's market value (excluding any securities issued post 30 June 2018) over the 10 ASX trading days in the relevant calendar quarter
- Performance fees: \$115.3m comprising instalments due for the 2016, 2017 and 2018 years

The performance fees reflect our performance against the S&P/ASX300 Industrials Accumulation Index (the "Index"). For the one year period 1 July 2017 to 30 June 2018, ALX outperformed the Index with a TSR of 18.3% compared to 7.5% for the Index. For the three year period 1 July 2015 to 30 June 2018, ALX continued to outperform the Index with a TSR of 133% compared to 23%.

Growth in Atlas Arteria's TSR relative to the S&P ASX300 Industrials Accumulation Index: July 2015 - June 2018



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Directors' Reports (continued)

Remuneration Report (audited) (continued)

3.3 Atlas Arteria's financial performance as it relates to remuneration for the KMP Elect

Short term incentive

During FY18, no STI was awarded to the KMP Elect. The performance of each KMP Elect will be assessed following the transition to internalised management in 2019. For further details regarding the STI plan, refer to section 5.2.

Long term incentive

ALX's long-term performance is measured against a single measure of TSR relative to a group of local and international companies with similar characteristics. For the FY18 LTI award, performance is measured from 1 May 2018 to 31 December 2020. There was no LTI award vesting during the 2018 financial year. For further details regarding the LTI plan, see section 5.3.

4 Macquarie: Management fees and CEO remuneration

During 2018, agreement was reached to internalise ALX's management with effect no later than 15 May 2019. In reaching agreement, transitional arrangements were approved for the management fee structure with Macquarie, as outlined below. For the purposes of good governance, the remuneration arrangements of the ALX CEO are also outlined below. As the CEO is employed by Macquarie Group, not Atlas Arteria, his remuneration is disclosed in this Report on a voluntary basis. The remuneration of the CEO is under the Macquarie Group remuneration structure. Macquarie Group's approach to executive remuneration is detailed in the Macquarie Group Annual Report.

4.1 Macquarie Management fees

| Element | Description |
|---------------------------------|---|
| Management fee structure | <p>ATLAX and ATLIX entered into advisory and management agreements (collectively, the "ALX Management Agreements") with Macquarie, a wholly owned subsidiary of Macquarie Group Limited ("MGL" or "Macquarie Group"). Under the ALX Management Agreements, ALX is required to pay a management fee comprising a base and performance-based fee, calculated in accordance with defined formulae (outlined below). The management fee structure is linked to ALX's market performance and, in the case of performance fees, ongoing ALX outperformance against a market benchmark.</p> <p>In exchange for the management fee, Macquarie makes employees available (including senior executives) to discharge its obligations to the relevant ALX entity. These staff are employed by Macquarie Group entities and made available through formalised resourcing arrangements.</p> <p>The fee arrangements with Macquarie were adjusted as part of the negotiations with Macquarie to amend the advisory and management agreements in the lead up to internalisation. Details of these changes were outlined in the Explanatory Memorandum to the 2018 Notice of Meeting.</p> |
| Base fees | <p>A base fee is paid to Macquarie at a rate of 0.85% per annum of ALX's market value.</p> <p>Market value means the market capitalisation of ALX calculated on the basis of the average number of ALX securities on issue during the last 10 ASX trading days in the relevant calendar quarter (excluding any ALX securities issued post 30 June 2018) multiplied by the volume weighted average price ("VWAP") of all ALX securities traded on the ASX during those 10 trading days.</p> <p>The quantum of the base management fee can increase or decrease as a result of any movement in both the number of ALX securities on issue (excluding any ALX securities issued post 30 June 2018) and the security price. Whilst the base management fee remains in place, no additional management fees are levied by Macquarie at the asset level for any of ALX's investments.</p> <p>The base fee will be payable until 15 May 2019. From 16 May 2019 to 31 December 2019, a fee of \$750,000 per month will be payable for specific transition services.</p> |

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

| | |
|------------------------------|---|
| Performance fees | <p>A performance fee was payable to Macquarie if the ALX accumulation index outperformed its benchmark, the S&P/ASX300 Industrials Accumulation Index, in the year having made up for any previous underperformance.</p> <p>Historically, performance fees were payable in three equal annual instalments. The first instalment was payable immediately, with subsequent instalments subject to further performance conditions. The second and third instalments were payable on the first and second anniversaries of the calculation date respectively, only if ALX's performance equalled or exceeded that of the benchmark over the period to that date.</p> <p>At 30 June 2018, the following performance fees became payable in accordance with, and due to the renegotiation of, the management agreements. Fees are apportioned between ATLAX and ATLIX based on each entity's share of the value of ALX's net assets.</p> <ul style="list-style-type: none"> • 2018 performance fee: \$54.7 million (excluding GST). In accordance with, and due to the renegotiation of, the management agreements, the 2018 performance fee was payable in full. • 2017 performance fee: The second instalment of \$8.0 million (excluding GST) was tested at 30 June 2018 and became payable at this time due to outperformance against the benchmark. In accordance with, and due to the renegotiation of, the management agreements, the third instalment of \$8.0 million (excluding GST), was payable in full. • 2016 performance fee: \$44.7million (excluding GST) for the third instalment fee was tested at 30 June 2018 and became payable at this time due to outperformance against the benchmark. <p>On 2 July 2018, Macquarie and ALX's independent directors agreed that the total performance fees of \$115.3 million (excluding GST) be settled by a combination of equity and cash. Accordingly, 13,476,174 ALX securities were issued to Macquarie's assignee at a price of \$6.700906 per security on 2 July 2018. The remaining performance fee payable of \$25.0 million was settled in cash on 3 July 2018.</p> <p>Following the above settlement, Macquarie is no longer eligible to earn performance fees under its management agreement with ALX.</p> |
| Reinvestment of fees | <p>Per ALX's constituent documents and ALX Management Agreements, Macquarie can request the application of base or performance fees payable be used to subscribe for new ALX securities. This subscription is subject to the approval of ALX's independent directors.</p> <p>Where this occurs, the issue price for the new ALX stapled securities is the VWAP of all ALX stapled securities traded on the ASX during the last 10 trading days of the relevant instalment period.</p> |
| Expense reimbursement | <p>Macquarie is reimbursed, out of the assets of ALX, for any out of pocket expenses incurred in relation to the proper performance of its duties as set out in the ALX Management Agreements. Macquarie is not reimbursed for staff costs, or costs associated with their employment and premises.</p> <p>Fees paid or payable to ALX group entities for services provided by other Macquarie entities are disclosed in the ALX financial statements and are subject to strict protocols.</p> |

4.2 ALX CEO remuneration

Mr James Hooke was appointed CEO of ALX effective 1 February 2018 and is employed by the Macquarie Group. Mr Hooke's remuneration is determined and paid by the Macquarie Group and not recharged to ALX. As such, his remuneration is not required to be disclosed, however, Macquarie has agreed to provide details of Mr Hooke's remuneration in his capacity as ALX CEO.

Macquarie's remuneration approach is detailed in the MGL Annual Report available at www.macquarie.com. An overview of this approach, as applicable to Mr Hooke, is provided below.

Macquarie Group's remuneration framework works as an integrated whole and comprises fixed remuneration and profit share with an emphasis on performance-based remuneration.

Fixed remuneration is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements.

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 Atlas Arteria Limited

Directors' Reports (continued)

Remuneration Report (audited) (continued)

Profit share allocations for individuals are primarily based on business profits and individual contribution to profits. Profit share allocations may be adjusted downwards based on an assessment of risk or conduct issues that have arisen during the year. For Mr Hooke, his profit share allocation is determined with reference to his individual contribution to the performance of ALX, and includes consideration of:

- ALX's overall performance as a listed entity;
- Management and leadership of ALX including the management of ALX's investments;
- Effective risk management and capital management; and
- Maintenance of ALX's reputation.

Macquarie Group retains a percentage of certain individual's annual profit share allocation (retained profit share) which is invested in a combination of MGL equity under the Macquarie Group Employee Retained Equity Plan ("MEREP") and via notional investment in Macquarie Group managed funds. One third of Mr Hooke's retained profit share vests and is released in each of years 3 to 5 from the date of award.

Mr Hooke's fixed remuneration and profit share allocation are determined with reference to MGL's financial year ended 31 March, which is a different cycle to ALX's financial year ended 31 December. Consequently, Mr Hooke's profit share, for the period ending 31 March 2019, attributable to his contribution to ALX has not yet been determined.

Inclusive of superannuation, Mr Hooke's fixed remuneration for the period 1 February 2018 to 31 December 2018 was \$426,251.

5 Remuneration framework for management post internalisation

The remuneration framework for the executive team post internalisation, including executive KMP, aims to achieve balance – between fixed and performance based remuneration, between short and long-term performance incentives, and between financial, non-financial and strategic outcomes – as well as providing a balance of remuneration received in cash and in securities.

Our objectives for the executive remuneration framework for internalised management are to ensure that it:

- Is simple to understand, implement and communicate;
- Meets short-term imperatives during the current period of significant change, whilst also reflecting the long-term needs of the business;
- Reflects the experience of the executive and complexity of the role and business compared to the market;
- Encourages behaviours that are aligned to our business strategy, performance and securityholders;
- Reflects performance measures which our executives have the ability to influence; and
- Encourages executive equity ownership.

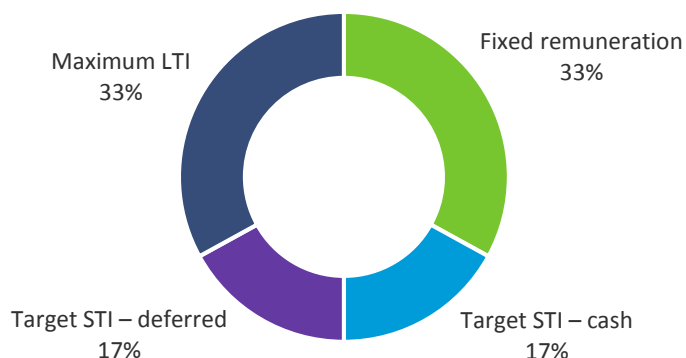
5.1 Positioning and mix of executive remuneration

To ensure our remuneration quantum and structure is market competitive, we reference the median of a group of comparator companies of similar size and complexity to ALX. For FY18, the primary reference point was a group of 72 companies with a 12-month average market capitalisation between 50% to 200% of ALX. The remuneration arrangements of selected industry comparators were also considered for each role.

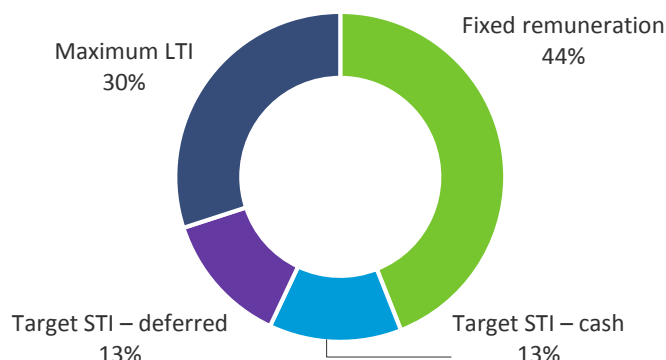
The target and maximum remuneration framework for the CEO Elect and CFO Elect comprises fixed remuneration, STI and LTI as in the graphs below.

Remuneration mix based on achieving 'target' performance

CEO Elect



CFO Elect

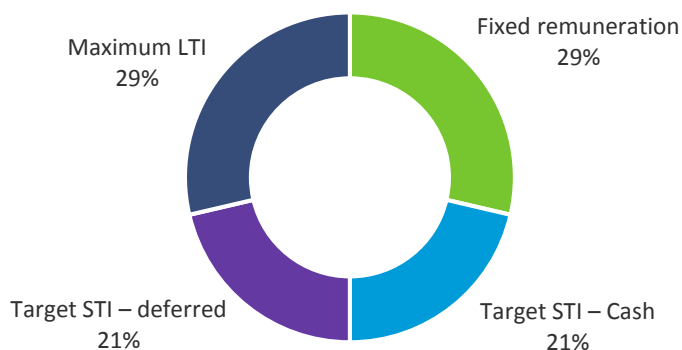


Directors' Reports (continued)

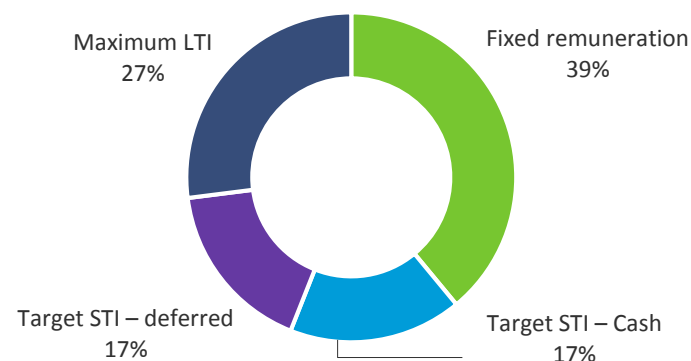
Remuneration Report (audited) (continued)

Remuneration mix based on achieving 'maximum' performance

CEO Elect



CFO Elect



Outlined below is further detail regarding the STI and LTI plans for the 2018 financial year. Any changes to the remuneration framework that will apply following the transition to internalised management have also been highlighted.

5.2 Short-term incentive

Executives, middle management and additional participants as determined by the Boards are eligible to participate in the annual STI plan. Details regarding the STI arrangements of the CEO Elect and CFO Elect are set out below. The size of each STI award is capped at an agreed percentage of fixed remuneration for each executive. The value of the STI payment made at the end of the performance period is a function of performance against a balance of financial and non-financial performance measures aligned with ALX's short term interests.

| Element | Description | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|------------------------------------|-----------|-----------|--|------------------|-----------|------------------|-----------|-----------|-----|-------------------|-----|-----------------------|-----|------------------------|-----|-------------------|-----|---------------------------------|-----|------------------------|-----|-----------------------|-----|--|--|------------------------------------|-----|--|--|-----------|----|
| Opportunity | <p>The STI is subject to achievement of defined performance targets, which is delivered 50% in cash and 50% in restricted securities.</p> <p>The target STI represents an opportunity to earn 100% of fixed remuneration for the CEO Elect and 60% of fixed remuneration for the CFO Elect. The CEO Elect and CFO Elect have the opportunity to earn up to a maximum of 150% of these target STIs. For FY18, the STI opportunity is pro-rated for the portion of the performance period for which the KMP was employed.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Performance measures pre-internalisation | <p>Performance is assessed against the following measures:</p> <table border="1"> <thead> <tr> <th colspan="2">CEO Elect</th> <th colspan="2">CFO Elect</th> </tr> <tr> <th>Performance area</th> <th>Weighting</th> <th>Performance area</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Strategic</td> <td>30%</td> <td>Transition budget</td> <td>25%</td> </tr> <tr> <td>Transition activities</td> <td>30%</td> <td>Stakeholder engagement</td> <td>20%</td> </tr> <tr> <td>Transition budget</td> <td>25%</td> <td>Financial transition activities</td> <td>20%</td> </tr> <tr> <td>Stakeholder engagement</td> <td>15%</td> <td>Transition activities</td> <td>15%</td> </tr> <tr> <td></td> <td></td> <td>Risk related transition activities</td> <td>15%</td> </tr> <tr> <td></td> <td></td> <td>Strategic</td> <td>5%</td> </tr> </tbody> </table> | CEO Elect | | CFO Elect | | Performance area | Weighting | Performance area | Weighting | Strategic | 30% | Transition budget | 25% | Transition activities | 30% | Stakeholder engagement | 20% | Transition budget | 25% | Financial transition activities | 20% | Stakeholder engagement | 15% | Transition activities | 15% | | | Risk related transition activities | 15% | | | Strategic | 5% |
| CEO Elect | | CFO Elect | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Performance area | Weighting | Performance area | Weighting | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Strategic | 30% | Transition budget | 25% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transition activities | 30% | Stakeholder engagement | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transition budget | 25% | Financial transition activities | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Stakeholder engagement | 15% | Transition activities | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Risk related transition activities | 15% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Strategic | 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Performance period | <p>Performance is measured over a one-year performance period, from 1 January to 31 December. However, as a result of KMP Elect commencing employment during FY18, the performance period is the date each KMP commenced employment (being 1 May 2018 for the CEO Elect and 16 July 2018 for the CFO Elect) to the date of internalisation.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Atlas Arteria International Limited
Atlas Arteria Limited

Directors' Reports (continued)

Remuneration Report (audited) (continued)

5.2 Short-term incentive (continued)

| Element | Description | | | | | | | | | | | | | | | | | | | | |
|---|--|---|-----------|-----------|--|------------------|-----------|------------------|-----------|---|--|---|--|---|-----|---|-----|---|-----|---|-----|
| STI deferral | To assist in creating alignment with securityholders and in achieving the minimum shareholding requirement, 50% of the STI outcome is deferred into restricted securities for a one-year period following the conclusion of the performance period, subject to ongoing service and the discretion of the Boards. | | | | | | | | | | | | | | | | | | | | |
| Performance measures post internalisation | Following transition to internalised management, executives, middle management and additional participants as determined by the Boards will be eligible to participate in the STI, with performance assessed from the date of internalisation to 31 December 2019 against financial measures and individual measures. Performance measures for the CEO Elect and CFO Elect in FY19 are as follows: | | | | | | | | | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th colspan="2">CEO Elect</th> <th colspan="2">CFO Elect</th> </tr> <tr> <th>Performance area</th> <th>Weighting</th> <th>Performance area</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Comprises a combination of the following:</td> <td></td> <td>Comprises a combination of the following:</td> <td></td> </tr> <tr> <td> <ul style="list-style-type: none"> Proportional adjusted EBITDA (reflecting proportional performance of each business adjusted for items determined by the Boards) Distributions per security Cashflow available for distribution Corporate operational expenditure </td> <td>70%</td> <td> <ul style="list-style-type: none"> Proportional adjusted EBITDA (reflecting proportional performance of each business adjusted for items determined by the Boards) Distributions per security Cashflow available for distribution Corporate operational expenditure </td> <td>70%</td> </tr> <tr> <td>KPI's relating to culture, behaviours and specific strategic outcomes</td> <td>30%</td> <td>KPI's relating to culture, behaviours and specific strategic outcomes</td> <td>30%</td> </tr> </tbody> </table> | CEO Elect | | CFO Elect | | Performance area | Weighting | Performance area | Weighting | Comprises a combination of the following: | | Comprises a combination of the following: | | <ul style="list-style-type: none"> Proportional adjusted EBITDA (reflecting proportional performance of each business adjusted for items determined by the Boards) Distributions per security Cashflow available for distribution Corporate operational expenditure | 70% | <ul style="list-style-type: none"> Proportional adjusted EBITDA (reflecting proportional performance of each business adjusted for items determined by the Boards) Distributions per security Cashflow available for distribution Corporate operational expenditure | 70% | KPI's relating to culture, behaviours and specific strategic outcomes | 30% | KPI's relating to culture, behaviours and specific strategic outcomes | 30% |
| CEO Elect | | CFO Elect | | | | | | | | | | | | | | | | | | | |
| Performance area | Weighting | Performance area | Weighting | | | | | | | | | | | | | | | | | | |
| Comprises a combination of the following: | | Comprises a combination of the following: | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Proportional adjusted EBITDA (reflecting proportional performance of each business adjusted for items determined by the Boards) Distributions per security Cashflow available for distribution Corporate operational expenditure | 70% | <ul style="list-style-type: none"> Proportional adjusted EBITDA (reflecting proportional performance of each business adjusted for items determined by the Boards) Distributions per security Cashflow available for distribution Corporate operational expenditure | 70% | | | | | | | | | | | | | | | | | | |
| KPI's relating to culture, behaviours and specific strategic outcomes | 30% | KPI's relating to culture, behaviours and specific strategic outcomes | 30% | | | | | | | | | | | | | | | | | | |
| | For FY19, STI awards will be pro-rated to reflect the period from the date of internalisation to 31 December 2019 | | | | | | | | | | | | | | | | | | | | |

5.3 Long-term incentive

To align with the interests of shareholders, executives and other participants as determined by the Boards are eligible to participate in an LTI plan. Details of the LTI arrangements of the CEO Elect and CFO Elect are set out below. The size of each year's grant is capped at an agreed percentage of fixed remuneration for each executive. The value of the LTI payment made at the end of the vesting period is a function of:

- ALX TSR performance relative to a group of Australian and international peer companies (which determines the number of securities granted that vest);
- the change in the price per ALX stapled security (which determines the value of each stapled security that vests); and
- the value of distributions that would have been made during the vesting period in relation to the number of securities that vest (Distribution Equivalents).

As a result, management incentives are aligned with the long-term interests of securityholders to achieve strong performance relative to peers and to generate an appropriate balance of security price performance and distributions.

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

| Element | Description | | | | | | | | | | |
|---|---|--|------------------|---------------------------|----|------------------------|-----|---|-----------------------------|------------------------|------|
| Opportunity | <p>The maximum grant value of LTI opportunities represents 100% of fixed remuneration for the CEO Elect and 70% of fixed remuneration for the CFO Elect.</p> <p>For FY18 only, the number of instruments granted will be determined based on the 10 day VWAP immediately following the 2018 Annual General Meeting (which was held on 15 May 2018).</p> <p>For FY19, the number of instruments granted will be determined based on the 10 day VWAP immediately following the announcement by ALX of its FY18 results.</p> <p>For the CEO Elect, the 2018 grant will be made in 2019 following approval from security holders at the 2019 AGM. If securityholder approval is not obtained, the CEO Elect will be eligible to receive a cash award of equivalent value and subject to the same performance measures and performance period.</p> | | | | | | | | | | |
| Vehicle | <p>Awards are delivered in the form of performance rights. A performance right is a right to acquire one fully paid Atlas Arteria security, subject to meeting pre-determined performance measures, for nominal consideration.</p> | | | | | | | | | | |
| Performance measure | <p>For the FY18 grant, LTI performance is assessed against relative TSR. Relative TSR was selected as the sole performance measure as it measures securityholding value creation objectively, can be used for comparing performance across different jurisdictions and is widely understood and accepted by stakeholders.</p> <p>Atlas Arteria's TSR performance is assessed against a local and global industry comparator group, comprising Abacus Property Group, APA Group, Aurizon Holdings Limited, AusNet Services, Charter Hall Group, Growthpoint Properties Australia, Qube Holdings Limited, Spark Infrastructure Group, Sydney Airport, Transurban Group, 3i Infrastructure, Cogent Communications Holdings Limited, Eiffage SA, Genesee & Wyoming Inc., Getlink, Macquarie Infrastructure Corporation and Zayo Group Holdings, Inc. These companies were selected as they operate in comparable industries, with asset size, market capitalisation, jurisdiction of assets and operational control, in relevant ranges.</p> <p>The comparator group may, at the discretion of the Boards, be adjusted to take into account events during the Performance Period including, but not limited to takeovers, mergers, de-mergers or de-listings.</p> | | | | | | | | | | |
| Vesting schedule | <p>Relative TSR performance is assessed on a sliding scale, with vesting determined as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Atlas Arteria's TSR performance</th> <th style="text-align: right;">% vesting</th> </tr> </thead> <tbody> <tr> <td>Below the 51st percentile</td> <td style="text-align: right;">0%</td> </tr> <tr> <td>At the 51st percentile</td> <td style="text-align: right;">50%</td> </tr> <tr> <td>Between the 51st percentile & 75th percentile</td> <td style="text-align: right;">Pro rata between 50% & 100%</td> </tr> <tr> <td>At the 75th percentile</td> <td style="text-align: right;">100%</td> </tr> </tbody> </table> <p>The Boards retains discretion to adjust the relative TSR measure in exceptional circumstances to ensure that participants are neither advantaged nor disadvantaged by matters outside management's control.</p> | Atlas Arteria's TSR performance | % vesting | Below the 51st percentile | 0% | At the 51st percentile | 50% | Between the 51st percentile & 75th percentile | Pro rata between 50% & 100% | At the 75th percentile | 100% |
| Atlas Arteria's TSR performance | % vesting | | | | | | | | | | |
| Below the 51st percentile | 0% | | | | | | | | | | |
| At the 51st percentile | 50% | | | | | | | | | | |
| Between the 51st percentile & 75th percentile | Pro rata between 50% & 100% | | | | | | | | | | |
| At the 75th percentile | 100% | | | | | | | | | | |
| Performance period | <p>Performance is measured over a three-year performance period, from 1 January to 31 December. However, as Atlas Arteria is working towards internalisation of management, the performance for FY18 will be measured from 1 May 2018 to 31 December 2020 to align with the period commencing when the internalisation was approved.</p> | | | | | | | | | | |
| Vesting and allocation of securities | <p>If and when the Boards determine that the relative TSR performance measure has been achieved, the performance rights will automatically be exercised and the relevant number of securities will be allocated.</p> | | | | | | | | | | |
| Distribution equivalents | <p>Distribution equivalents will be payable (via a grant of securities or a cash payment, at the Boards' discretion) on performance rights that have vested, to the value of any distributions paid during the performance period in respect of an equivalent number of ALX securities.</p> | | | | | | | | | | |

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

6 Non-Executive Director fees

6.1 Determination of Non-Executive Director fees

In order to attract and retain high calibre Non-Executive Directors, fees are reviewed periodically by the Remuneration Committees and set with reference to the market. The Board fee structure (inclusive of superannuation) for FY18 is as follows.

| Fees | ATLAX | | ATLIX | | |
|--------------------------------------|------------------------|--------------|------------------------|--------------|---------------------------|
| | Chair (AUD) | Member (AUD) | Chair (USD) | Member (USD) | Member (AUD) ² |
| Board | \$200,000 ¹ | \$120,000 | \$110,000 ¹ | \$70,000 | \$70,000 |
| Audit and Risk Committee | \$25,000 | \$12,500 | \$15,000 | \$7,500 | \$7,500 |
| Remuneration Committee | \$10,000 | \$5,000 | \$7,500 | \$3,750 | \$3,750 |
| Nominations and Governance Committee | Nil | \$5,000 | Nil | \$2,500 | \$2,500 |

1. Committee fees are not payable to the Chair of the ATLAX or ATLIX Board.
2. For Australian-based director.

In addition to base fees and additional fees for service on a committee of the Board as outlined above, Non-Executive Directors are also entitled to the following:

| Additional fees | ATLAX | | ATLIX | | |
|---|-------------|--------------|--------------------------------------|--------------|---------------------------|
| | Chair (AUD) | Member (AUD) | Chair (USD) | Member (USD) | Member (AUD) ¹ |
| Travel fee (per annum) | \$10,000 | | \$10,000 | \$5,000 | N/A |
| Additional ad hoc committee fee (per day) | \$2,500 | | | \$1,750 | \$1,750 |
| Internalisation committee (per annum) | \$5,000 | | | \$2,500 | \$2,500 |
| Additional working group fee | | | US\$5,000 and A\$20,000 ² | | |

1. For Australian-based director.
2. An additional working group was set up for the internalisation. Fees vary depending on level of involvement.

ATLAX and ATLIX directors are not entitled to ALX options or securities or to retirement benefits as part of their remuneration package.

6.2 Aggregate fee pool

As approved by securityholders, the aggregate ATLAX Non-Executive Director fee pool is capped at A\$1,000,000 and the ATLIX Non-Executive Director fee pool is capped at US\$500,000.

6.3 FY19 aggregate fee pool and Non-Executive Director fees

A review of market Non-Executive Director fees was undertaken in FY18, which included a review of market benchmarking information for companies of a similar size and complexity to ALX (being companies with a 12-month average market capitalisation between 50% to 200% of ALX). The review highlighted that remuneration for ATLAX and ATLIX's Non-Executive Directors is materially below the median level for companies of similar size and complexity.

We propose to increase the level of remuneration for ATLAX and ATLIX Non-Executive Directors to a level that is at or close to the median for the benchmark group of companies as follows:

| Fees | ATLAX | | ATLIX | | |
|--------------------------------------|------------------------|--------------|------------------------|--------------|---------------------------|
| | Chair (AUD) | Member (AUD) | Chair (USD) | Member (USD) | Member (AUD) ² |
| Board | \$280,000 ¹ | \$140,000 | \$160,000 ¹ | \$80,000 | \$80,000 |
| Audit and Risk Committee | \$30,000 | \$15,000 | \$18,000 | \$9,000 | \$9,000 |
| Remuneration Committee | \$30,000 | \$15,000 | \$18,000 | \$9,000 | \$9,000 |
| Nominations and Governance Committee | Nil | Nil | Nil | Nil | Nil |

1. Committee fees are not payable to the Chair of the ATLAX or ATLIX Board.
2. For Australian-based director.

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

Non-Executive Directors will also be entitled to receive a travel fee of A\$10,000 where for each occasion where they are required to travel over 8 hours to attend a Board meeting or strategy session.

To allow for these proposed increases in Non-Executive Director remuneration, an increase in the ATLAX and ATLIX Non-Executive Director fee pools to A\$1,100,000 (from A\$1,000,000) and US\$700,000 (from US\$500,000) respectively will be proposed for approval at the Annual General Meeting in April 2019

The combined ATLAX and ATLIX NED fee pool (converted to Australian dollars) is positioned at the 75th percentile of the market. This higher positioning is consistent with the need to have separate boards in place for each of the two legal entities which comprise ALX's stapled structure.

7 Remuneration Governance

7.1 Roles and responsibilities

The table below outlines the roles and responsibilities of the Boards, Remuneration Committees, Management and external advisors in relation to the remuneration arrangements of Directors, CEO Elect and other KMP Elect.

| The Boards | Remuneration Committees | Management | External advisors |
|--|--|--|--|
| Approves remuneration strategy and approves recommendations from the Remuneration Committees | Makes recommendations to the Boards regarding the remuneration framework, policies and practices for ALX as well as remuneration for KMP | Makes recommendations to the Remuneration Committees on the ALX's remuneration framework, policies and practices | Provides independent advice to the Remuneration Committees and / or Management on remuneration market data, market practice and other remuneration related matters |

The requirement for external remuneration advisor services is assessed in the context of matters the Remuneration Committees needs to address. External advice is used as a guide but does not serve as a substitute for directors' consideration of the relevant matters. Therefore, no remuneration recommendations, as defined by the *Corporations Act 2001* (Cth), were made by external remuneration advisors.

7.2 Executive Contracts

The remuneration and other terms of employment for the CEO Elect and CFO Elect are formalised in executive contracts. Key contractual terms in place for FY18 are outlined below.

| | Contract type | Termination notice by either party | Termination notice with cause | Termination notice by KMP elect for fundamental change in role |
|-----------|---------------|------------------------------------|---------------------------------|--|
| CEO Elect | Ongoing | 12 months | Immediate without notice period | 30 days within 21 days of fundamental change |
| CFO Elect | Ongoing | 6 months | Immediate without notice period | 30 days within 21 days of fundamental change |

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

7.3 Additional provisions as related to STI and LTI arrangements – KMP elect

The table below summarises additional arrangements as they relate to the CEO Elect and CFO Elect

| Provision | STI | LTI |
|--------------------------------|---|--|
| Malus | <p>In the event of:</p> <ul style="list-style-type: none"> Material non-compliance with any financial reporting requirement or other company policies and operating procedures; Fraudulent or dishonest behaviour; or Misconduct <p>The boards have discretion to determine that some or all deferred STI and unvested LTI awards are forfeited</p> | |
| Cessation of employment | <p>If a participant resigns or is terminated for cause (including gross misconduct), any deferred securities are forfeited and the participant is not entitled to any further payment of cash STI. If a participant leaves for any other reason, subject to Board discretion, the participant will be entitled to a pro-rata payment of cash STI subject to performance and deferred securities will stay "on foot" until the end of the deferred period.</p> | <p>If a participant resigns or is terminated for cause (including gross misconduct), unvested performance rights will automatically lapse. If a participant leaves for any other reason, subject to Board discretion, a pro-rata number of unvested performance rights (reflecting the portion of performance period served) will stay "on-foot" to be tested against the performance condition at the end of the original performance period.</p> |
| Change of control | <p>Upon a change of control:</p> <ul style="list-style-type: none"> The Boards will determine in its absolute discretion the treatment for STI opportunity Subject to the Boards determining otherwise, cash based STI will be assessed on a pro-rata basis and paid at that time based on performance, and deferred STI will vest in full | <p>Where a change of control occurs or is likely to occur, the Boards have discretion to determine the treatment of unvested equity awards and the timing of such treatment. In the event the Boards do not exercise their discretion, the LTI will vest pro rata for time and performance</p> |

7.4 Minimum securityholding requirements – Non-Executive Directors and KMP Elect

Minimum securityholding requirements help ensure there is alignment between the interests of ALX's Directors, KMP and securityholders.

| Role | Minimum shareholding | Timing to meet requirement |
|-------------------------|-----------------------------------|---|
| Non-Executive Directors | 100% of annual director base fees | 3 years from the later of July 2017 (when the policy was implemented) or from the date of their appointment |
| CEO Elect | 100% of fixed remuneration | 5 years from appointment |
| CFO Elect | 50% of fixed remuneration | 5 years from appointment |

8 Statutory disclosures

8.1 Executive statutory remuneration disclosures for FY18

The following table shows the total remuneration for the CEO Elect and CFO Elect for FY18.

| Name | Financial year | Cash salary \$ | Cash STI \$ | Non-cash benefits \$ | Super-annuation \$ | Value of share-based payments \$ | Long service leave \$ | Termination benefit \$ | Total \$ | Performance based equity % |
|----------------------|----------------|----------------|-------------|----------------------|--------------------|----------------------------------|-----------------------|------------------------|----------|----------------------------|
| Graeme Bevans | 2018 | 696,356 | - | - | 33,554 | 109,857 | - | - | 839,767 | 13.1% |
| Nadine Lennie | 2018 | 256,619 | - | - | 9,501 | 28,384 | - | - | 294,504 | 9.6% |

For the CEO Elect, the 2018 grant will be made in 2019 following approval from security holders at the 2019 AGM. If securityholder approval is not obtained, the CEO Elect will be eligible to receive a cash award of equivalent value and subject to the same performance measures and performance period. The performance rights have been valued and included in the financial statements for each member of the elect executive team on this basis.

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

8.2 Non-Executive Director statutory remuneration disclosures for FY18 and FY17

The following table shows the actual fees paid to Non-Executive Directors of ATLAX and ATLI for FY18 and FY17.

| Name | Financial year | ATLAX fees ¹ (AUD) | | | ATLI fees ¹ | | |
|----------------------------------|----------------|-------------------------------|----------------|---------|------------------------|----------------|-------------|
| | | Cash salary and fees | Superannuation | Total | Cash salary and fees | Superannuation | Total |
| Nora Scheinkestel | 2018 | 189,710 | 20,290 | 210,000 | AUD 83,750 | - | AUD 83,750 |
| | 2017 | 208,606 | 19,832 | 228,438 | AUD 86,250 | - | AUD 86,250 |
| Richard England ² | 2018 | 136,826 | 14,424 | 151,250 | | | |
| | 2017 | 180,060 | 15,681 | 195,741 | | | |
| Debbie Goodin ³ | 2018 | 162,864 | 15,261 | 178,125 | | | |
| | 2017 | 75,914 | 4,837 | 80,751 | | | |
| John Roberts ⁴ | 2018 | 105,000 | - | 105,000 | | | |
| | 2017 | 142,083 | - | 142,083 | | | |
| David Bartholomew ⁵ | 2018 | 32,380 | 3,037 | 35,417 | | | |
| Jean-Georges Malcor ⁶ | 2018 | 24,583 | - | 24,583 | | | |
| Marc de Cure ⁷ | 2017 | 71,918 | 6,832 | 78,750 | | | |
| Jeffrey Conyers | 2018 | | | | USD 120,000 | - | USD 120,000 |
| | 2017 | | | | USD 122,500 | - | USD 122,500 |
| Derek Stapley | 2018 | | | | USD 92,500 | - | USD 92,500 |
| | 2017 | | | | USD 102,437 | - | USD 102,437 |
| James Keyes | 2018 | | | | USD 85,000 | - | USD 85,000 |
| | 2017 | | | | USD 92,500 | - | USD 92,500 |
| Christopher Leslie ⁸ | 2018 | | | | USD 85,000 | - | USD 85,000 |
| | 2017 | | | | USD 28,300 | - | USD 28,300 |

- In 2017, Committees set up specifically for the ALX internalisation were remunerated at a rate of A\$5,000 per annum for ATLAX and US\$2,500 per annum for ATLI (A\$2,500 per annum for the Australian based director). In addition, a working group was set up with fees ranging between US\$5,000 and A\$20,000 depending on the level of involvement. In 2018, Debbie Goodin was paid a one-off fee of A\$20,000 for additional duties performed in relation to internalisation.
- Resigned as a Non-Executive Director, effective 30 November 2018.
- Commenced as a Non-Executive Director, effective 1 September 2017.
- Resigned as a Non-Executive Director, effective 28 September 2018.
- Commenced as a Non-Executive Director, effective 1 October 2018.
- Commenced as a Non-Executive Director, effective 1 November 2018.
- Resigned as a Non-Executive Director, effective 30 June 2017.
- Commenced as a Non-Executive Director, effective 1 September 2017.

8.3 Equity instrument disclosures relating to KMP and KMP Elect

Securityholdings

The table below outlines the number of ordinary securities held by each KMP and KMP elect, including their personally related parties, as at 31 December 2018, and the minimum securityholding requirements. Non-Executive Directors have acquired their security holdings on market and in accordance with ALX's Securities Trading Policy.

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Directors' Reports (continued)

Remuneration Report (audited) (continued)

Non-Executive Directors

| Name | Balance at 1 Jan 2018 No of securities | Changes No of securities | Balance at 31 Dec 2018 No of securities | Value at 31 Dec 2018 ¹ A\$ | Minimum securityholding requirement ² A\$ | Date securityholding to be attained |
|---------------------|--|-----------------------------|---|---|---|---|
| Nora Scheinkestel | 78,431 | - | 78,431 | 490,978 | 190,000 | July 2020 |
| Debbie Goodin | 5,671 | - | 5,671 | 35,500 | 120,000 | September 2020 |
| David Bartholomew | - | - | - | - | 120,000 | October 2021 |
| Jean-Georges Malcor | - | - | - | - | 120,000 | November 2021 |
| Jeffrey Conyers | 40,000 | - | 40,000 | 250,400 | 99,385 | July 2020 |
| James Keyes | 5,000 | - | 5,000 | 31,300 | 99,385 | July 2020 |
| Christopher Leslie | - | - | - | - | 99,385 | September 2020 |
| Derek Stapley | - | 5,000 | 5,000 | 31,300 | 99,385 | July 2020 |

1. Based on the closing share price of ALX securities on 31 December 2018 of A\$6.26.

2. Minimum securityholding requirement for ATLIX Board members has been converted to AUD at the 31 December 2018 exchange rate of A\$1 = US\$0.7043.

KMP Elect

| Name | Balance at 1 Jan 2018 No of securities | Changes No of securities | Balance at 31 Dec 2018 No of securities | Value at 31 Dec 2018 A\$ | Minimum securityholding requirement A\$ | Date securityholding to be attained |
|---------------|--|--------------------------------|---|--------------------------------|--|---|
| Graeme Bevans | - | - | - | - | 1,100,000 | May 2023 |
| Nadine Lennie | - | - | - | - | 287,500 | July 2023 |

Options

No options over unissued ordinary securities of ALX existed or were granted to KMP during FY18.

Performance rights held during the year

Performance rights held by KMP Elect have been disclosed in this report.

Equity grants on foot during FY18

No equity grants were on foot for KMP Elect during FY18.

8.4 Loans to directors or related parties

There were no loans to directors or related parties during FY18.

8.5 Other transactions with KMP

There were no other transactions with KMP.

Atlas Arteria International Limited
Atlas Arteria Limited

Directors' Reports (continued)

Auditor services (audited)

The Group has an auditor independence policy which precludes the auditors from performing certain services. This ensures that the audit firm does not review or audit their own work, act in a management or a decision-making capacity for the Group, act as advocate for the Group or jointly share economic risks and rewards. When permissible by this policy, the Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Groups are important.

Details of the amounts paid or payable to the Group auditor (PricewaterhouseCoopers) as well as the non PricewaterhouseCoopers audit firms for services provided during the year are set out below.

The Boards have considered the position and, in accordance with the advice received from the Audit and Risk Committee, are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit and Risk Committees to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermines the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | \$ | \$ | \$ | \$ |
| Amounts paid or payable to PricewaterhouseCoopers | | | | |
| Australia for: | | | | |
| Audit services | 479,130 | 364,743 | 239,565 | 186,110 |
| Taxation services | - | 14,240 | - | - |
| Other assurance services ¹ | 60,680 | 261,918 | 30,340 | 25,904 |
| | 539,810 | 640,901 | 269,905 | 212,014 |
| Amounts paid or payable to network firms of PricewaterhouseCoopers for: | | | | |
| Audit services | 314,211 | 239,416 | 32,745 | 41,927 |
| Taxation services ² | 155,974 | 29,757 | - | - |
| Other services | - | 4,830 | - | - |
| | 470,185 | 274,003 | 32,745 | 41,927 |
| Amounts paid or payable to non PricewaterhouseCoopers audit firms for: | | | | |
| Audit services | 64,866 | - | - | - |
| | 64,866 | - | - | - |

1. Other assurance services provided in 2018 related to management internalisation. Other assurance services provided in 2017 related to the capital raising services associated with the acquisition of the 50% estimated economic interest in TRIP II and 4.86% indirect interest in APRR via MAF2.
2. Taxation services provided by network firms of the auditor relates to the filing of corporate income tax returns for the Group's entities domiciled outside of Australia.

Atlas Arteria International Limited
Atlas Arteria Limited

Directors' Reports (continued)

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* for ATLAX is set out on page 30.

Signed in accordance with a resolution of the directors of Atlas Arteria International Limited:



Jeffrey Conyers

Chairman
Atlas Arteria International Limited
Pembroke, Bermuda
27 February 2019



Derek Stapley

Director
Atlas Arteria International Limited
Pembroke, Bermuda
27 February 2019

Signed in accordance with a resolution of the directors of Atlas Arteria Limited:



Nora Scheinkestel

Chairman
Atlas Arteria Limited
Sydney, Australia
28 February 2019



Debra Goodin

Director
Atlas Arteria Limited
Sydney, Australia
28 February 2019

Atlas Arteria International Limited
Atlas Arteria Limited



Auditor's Independence Declaration

As lead auditor for the audits of Atlas Arteria International Limited and Atlas Arteria Limited for the year ended 31 December 2018, I declare that to the best of my knowledge and belief there have been:

- 1 no contraventions of the auditor independence requirements of the *Corporations Act 2001* (as applicable) in relation to the audits; and
- 2 no contraventions of any applicable code of professional conduct in relation to the audits.

This declaration is in respect of Atlas Arteria International Limited and Atlas Arteria Limited and the entities they controlled during the year.

A handwritten signature in black ink, appearing to read 'SJ Smith', is written over a light blue horizontal line.

SJ Smith
Partner
PricewaterhouseCoopers

Sydney
28 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 1171.

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Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation

Atlas Arteria International Limited
Atlas Arteria Limited

Consolidated Statements of Comprehensive Income

| | Note | ALX | ALX | ATLAX Group | ATLAX Group |
|--|--------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Revenue and other income from operations | | | | | |
| Revenue from operations | | 132,378 | 78,732 | 5,540 | 3,024 |
| Other income from operations | | 13,609 | 394,269 | 224 | 65,142 |
| Total revenue and other income from operations | 2.1(a) | 145,987 | 473,001 | 5,764 | 68,166 |
| Operating expenses | 2.1(b) | (222,458) | (104,343) | (17,795) | (8,493) |
| Finance costs | 2.1(c) | (108,920) | (53,795) | - | - |
| Share of net profits/(losses) of investments accounted for using the equity method | 3.2(b) | 246,141 | 187,971 | (4,801) | (626) |
| Profit/(loss) from operations before income tax | | 60,750 | 502,834 | (16,832) | 59,047 |
| Income tax (expense)/benefit | 2.4 | (898) | 16,749 | 1 | (1,664) |
| Profit/(loss) for the year | | 59,852 | 519,583 | (16,831) | 57,383 |
| Profit/(loss) attributable to: | | | | | |
| Equity holders of the parent entity – ATLIX | | 76,683 | 462,200 | - | - |
| Equity holders of other stapled entity – ATLAX (as non-controlling interest/parent entity) | | (16,831) | 57,383 | (16,831) | 57,383 |
| Stapled security holders | | 59,852 | 519,583 | (16,831) | 57,383 |
| Other comprehensive income/(loss) | | | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | | | |
| Exchange differences on translation of foreign operations | | 178,502 | (14,940) | 16,547 | (14,518) |
| Other comprehensive income/(loss) for the year, net of tax | | 178,502 | (14,940) | 16,547 | (14,518) |
| Total comprehensive income/(loss) for the year | | 238,354 | 504,643 | (284) | 42,865 |
| Total comprehensive income/(loss) attributable to: | | | | | |
| Equity holders of the parent entity – ATLIX | | 238,638 | 461,778 | - | - |
| Equity holders of other stapled entity – ATLAX (as non-controlling interest/parent entity) | | (284) | 42,865 | (284) | 42,865 |
| Stapled security holders | | 238,354 | 504,643 | (284) | 42,865 |
| | | Cents | Cents | Cents | Cents |
| Profit/(loss) per share attributable to ATLIX/ATLAX shareholders | | | | | |
| Basic profit/(loss) per share attributable to: | | | | | |
| ATLIX (as parent entity) | 2.3 | 11.33 | 77.98 | - | - |
| ATLAX (as non-controlling interest) | 2.3 | - | - | (2.49) | 9.68 |
| Basic profit/(loss) per ALX stapled security | | 8.84 | 87.66 | (2.49) | 9.68 |
| Diluted profit/(loss) per share attributable to: | | | | | |
| ATLIX (as parent entity) | 2.3 | 11.33 | 77.98 | - | - |
| ATLAX (as non-controlling interest) | 2.3 | - | - | (2.49) | 9.68 |
| Diluted profit/(loss) per ALX stapled security | | 8.84 | 87.66 | (2.49) | 9.68 |

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Atlas Arteria International Limited
Atlas Arteria Limited

Consolidated Statements of Financial Position

| | Note | ALX | ALX | ATLAX Group | ATLAX Group |
|--|------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Current assets | | | | | |
| Cash and cash equivalents | 3.1 | 186,468 | 122,690 | 12,461 | 34,304 |
| Other assets | 4.3 | 2,495 | 1,342 | 47,337 | 2,196 |
| Total current assets | | 188,963 | 124,032 | 59,798 | 36,500 |
| Non-current assets | | | | | |
| Intangible assets – Tolling concessions | 4.1 | 2,578,434 | 2,189,724 | - | - |
| Investments accounted for using the equity method | 3.2 | 1,569,970 | 1,483,337 | 164,644 | 153,110 |
| Restricted cash | 3.1 | 203,961 | 153,440 | - | - |
| Goodwill | 4.2 | 79,390 | 58,726 | - | - |
| Property, plant and equipment | | 4,595 | 728 | 561 | - |
| Derivative financial instruments | | 2,900 | - | - | - |
| Other assets | 4.3 | 319 | 140 | 8,274 | 122,882 |
| Total non-current assets | | 4,439,569 | 3,886,095 | 173,479 | 275,992 |
| Total assets | | 4,628,532 | 4,010,127 | 233,277 | 312,492 |
| Current liabilities | | | | | |
| Debt at amortised cost | 5.1 | (77,322) | (66,286) | - | - |
| Other liabilities | 4.4 | (34,859) | (63,327) | (3,398) | (6,376) |
| Derivative financial instruments | | (3,108) | - | - | - |
| Total current liabilities | | (115,289) | (129,613) | (3,398) | (6,376) |
| Non-current liabilities | | | | | |
| Debt at amortised cost | 5.1 | (2,101,962) | (1,668,352) | - | - |
| Deferred tax liabilities | 2.4 | (57,709) | (40,333) | - | - |
| Other liabilities | 4.4 | (11,571) | (9,754) | - | - |
| Derivative financial instruments | | (13,495) | - | - | - |
| Total non-current liabilities | | (2,184,737) | (1,718,439) | - | - |
| Total liabilities | | (2,300,026) | (1,848,052) | (3,398) | (6,376) |
| Net assets | | 2,328,506 | 2,162,075 | 229,879 | 306,116 |
| Equity | | | | | |
| Equity attributable to equity holders of the parent – ATLIX | | | | | |
| Contributed equity | 5.2 | 1,995,994 | 1,911,877 | - | - |
| Reserves | 5.3 | 190,155 | 28,122 | - | - |
| Accumulated losses | | (87,522) | (84,040) | - | - |
| ATLIX security holders' interest | | 2,098,627 | 1,855,959 | - | - |
| Equity attributable to other stapled security holders – ATLAX | | | | | |
| Contributed equity | 5.2 | 197,311 | 268,334 | 197,311 | 268,334 |
| Reserves | 5.3 | (7,528) | (24,216) | (7,528) | (24,216) |
| Accumulated income | | 40,096 | 61,998 | 40,096 | 61,998 |
| Other stapled security holders' interest | | 229,879 | 306,116 | 229,879 | 306,116 |
| Total equity | | 2,328,506 | 2,162,075 | 229,879 | 306,116 |

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes.

As required by Bermuda regulations, the ALX financial information was approved by the directors of the Atlas Arteria International Limited (“ATLIX”) Board on 27 February 2019 and was signed on ATLIX’s behalf by:



Jeffrey Conyers
Atlas Arteria International Limited
Pembroke, Bermuda



Derek Stapley
Atlas Arteria International Limited
Pembroke, Bermuda

Atlas Arteria International Limited
Atlas Arteria Limited

Consolidated Statements of Changes in Equity

| ALX | Attributable to ATLIX security holders | | | | Attributable to ATLAX security holders \$'000 | Total ALX equity \$'000 |
|---|--|--------------------|---------------------------------|------------------|--|-------------------------------|
| | Contributed equity \$'000 | Reserves \$'000 | Accumulated Losses \$'000 | Total \$'000 | | |
| Total equity at 1 January 2018 | 1,911,877 | 28,122 | (84,040) | 1,855,959 | 306,116 | 2,162,075 |
| Opening adjustment on adoption of AASB 9 ¹ | - | - | 288 | 288 | (288) | - |
| Total equity at 1 January 2018 (restated) | 1,911,877 | 28,122 | (83,752) | 1,856,247 | 305,828 | 2,162,075 |
| Profit/(loss) for the year | - | - | 76,683 | 76,683 | (16,831) | 59,852 |
| Exchange differences on translation of foreign operations | - | 161,955 | - | 161,955 | 16,547 | 178,502 |
| Transfer from foreign currency translation reserve to accumulated losses ² | - | 78 | (78) | - | - | - |
| Total comprehensive income/(expense) | - | 162,033 | 76,605 | 238,638 | (284) | 238,354 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | |
| Application of performance fees to subscription for new securities | 84,117 | - | - | 84,117 | 6,186 | 90,303 |
| Employee performance rights ³ | - | - | - | - | 141 | 141 |
| Capital return ⁴ | - | - | - | - | (77,209) | (77,209) |
| Dividends paid ⁴ | - | - | (80,375) | (80,375) | (4,783) | (85,158) |
| | 84,117 | - | (80,375) | 3,742 | (75,665) | (71,923) |
| Total equity at 31 December 2018 | 1,995,994 | 190,155 | (87,522) | 2,098,627 | 229,879 | 2,328,506 |

- Refer note 7.5(e) for details.
- Foreign exchange translation gain of \$0.1 million transferred to accumulated losses on de-recognition of joint venture (refer note 6.2 for details).
- Refer note 7.4 for details.
- On 5 October 2018, ATLAX paid a distribution of 12.0 cents per stapled security ("cps"), comprising a capital return of 11.3 cps and an unfranked Australian ordinary dividend of 0.7 cps. On 13 April 2018, ATLIX paid an ordinary dividend of 12.0 cps.

| ALX | Attributable to ATLIX security holders | | | | Attributable to ATLAX security holders \$'000 | Total ALX equity \$'000 |
|---|--|--------------------|---------------------------------|-----------------|--|-------------------------------|
| | Contributed equity \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total \$'000 | | |
| Total equity at 1 January 2017 | 1,323,651 | 58,378 | (517,041) | 864,988 | 208,010 | 1,072,998 |
| Profit for the year | - | - | 462,200 | 462,200 | 57,383 | 519,583 |
| Exchange differences on translation of foreign operations | - | (422) | - | (422) | (14,518) | (14,940) |
| Transfer from foreign currency translation reserve to accumulated losses ¹ | - | (30,135) | 30,135 | - | - | - |
| Total comprehensive income | - | (30,557) | 492,335 | 461,778 | 42,865 | 504,643 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | |
| Issue of securities during the year | 595,789 | - | - | 595,789 | 51,035 | 646,824 |
| Application of performance fees to subscription for new securities | 48,585 | - | - | 48,585 | 4,054 | 52,639 |
| Other equity transactions | - | 301 | - | 301 | 152 | 453 |
| Capital return ² | (56,148) | - | - | (56,148) | - | (56,148) |
| Dividends paid ² | - | - | (59,334) | (59,334) | - | (59,334) |
| | 588,226 | 301 | (59,334) | 529,193 | 55,241 | 584,434 |
| Total equity at 31 December 2017 | 1,911,877 | 28,122 | (84,040) | 1,855,959 | 306,116 | 2,162,075 |

- Foreign exchange translation gain of \$30.1 million transferred to accumulated losses on de-recognition of associate.
- On 29 September 2017, ALX paid an ordinary dividend of 10.0 cps. On 7 April 2017, ALX paid a distribution of 10.0 cps, comprising a capital return of 9.8 cps and an ordinary dividend of 0.2 cps.

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Atlas Arteria International Limited
Atlas Arteria Limited

Consolidated Statements of Changes in Equity (continued)

| ATLAX Group | Attributable to ATLAX security holders | | | |
|--|--|--------------------|------------------------------|------------------------------------|
| | Contributed equity \$'000 | Reserves \$'000 | Accumulated income \$'000 | Total ATLAX Group equity \$'000 |
| Total equity at 1 January 2018 | 268,334 | (24,216) | 61,998 | 306,116 |
| Opening adjustment on adoption of AASB 9 ¹ | - | - | (288) | (288) |
| Total equity at 1 January 2018 (restated) | 268,334 | (24,216) | 61,710 | 305,828 |
| Loss for the year | - | - | (16,831) | (16,831) |
| Exchange differences on translation of foreign operations | - | 16,547 | - | 16,547 |
| Total comprehensive expense | - | 16,547 | (16,831) | (284) |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Application of performance fees to subscription for new securities | 6,186 | - | - | 6,186 |
| Employee performance rights ² | - | 141 | - | 141 |
| Capital return ³ | (77,209) | - | - | (77,209) |
| Dividend paid ³ | - | - | (4,783) | (4,783) |
| | (71,023) | 141 | (4,783) | (75,665) |
| Total equity at 31 December 2018 | 197,311 | (7,528) | 40,096 | 229,879 |

1. Refer note 7.5(e) for details.

2. Refer note 7.4 for details.

3. On 5 October 2018, ATLAX paid a distribution of 12.0 cps, comprising a capital return of 11.3 cps and an unfranked Australian ordinary dividend of 0.7 cps.

| ATLAX Group | Attributable to ATLAX security holders | | | |
|---|--|--------------------|------------------------------|------------------------------------|
| | Contributed equity \$'000 | Reserves \$'000 | Accumulated income \$'000 | Total ATLAX Group equity \$'000 |
| Total equity at 1 January 2017 | 213,245 | (7,131) | 1,896 | 208,010 |
| Profit for the year | - | - | 57,383 | 57,383 |
| Exchange differences on translation of foreign operations | - | (14,518) | - | (14,518) |
| Transfer from foreign currency translation reserve to accumulated losses ¹ | - | (2,719) | 2,719 | - |
| Total comprehensive income | - | (17,237) | 60,102 | 42,865 |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Issue of securities during the year | 51,035 | - | - | 51,035 |
| Application of performance fees to subscription for new securities | 4,054 | - | - | 4,054 |
| Other equity transactions | - | 152 | - | 152 |
| | 55,089 | 152 | - | 55,241 |
| Total equity at 31 December 2017 | 268,334 | (24,216) | 61,998 | 306,116 |

1. Foreign exchange translation gain of \$2.7 million transferred to accumulated income on de-recognition of associate.

Atlas Arteria International Limited
Atlas Arteria Limited

Consolidated Statements of Cash Flows

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| Note | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash flows from operating activities | | | | |
| Toll revenue received (net of transaction fees) | 123,174 | 73,560 | - | - |
| Interest received | 2,001 | 1,907 | 4,977 | 1,131 |
| Other income received | 634 | 371 | - | - |
| Net indirect taxes received | 430 | 268 | 430 | 265 |
| Property taxes paid | (5,889) | (5,713) | - | - |
| Manager's and adviser's base fees paid | (36,874) | (30,578) | (2,711) | (2,818) |
| Manager's and adviser's performance fees paid | (25,000) | - | (1,713) | - |
| Payments to suppliers and employees (inclusive of GST/VAT) | (35,328) | (19,538) | (9,673) | (5,119) |
| M6 Toll management fees received | - | 5,155 | - | - |
| Net income taxes paid | (8) | (7,312) | - | (7,307) |
| Net cash flows from operating activities | 7.1 23,140 | 18,120 | (8,690) | (13,848) |
| Cash flows from investing activities | | | | |
| Return on preferred equity certificates issued by Macquarie Autoroutes de France 2 SA ("MAF2") | 249,417 | 147,779 | - | - |
| Proceeds from/(payments for) purchase of investments, net of cash acquired | 1,890 | (1,215,113) | - | (79,162) |
| Purchase of fixed assets | (1,102) | (277) | (548) | - |
| Sale of fixed assets | 4 | 138 | - | - |
| Net cash flows from investing activities | 250,209 | (1,067,473) | (548) | (79,162) |
| Cash flows from financing activities | | | | |
| Proceeds from debt (net of transaction costs) | 534,699 | 450,530 | - | - |
| Repayment of debt and interest (including transaction costs) | (555,834) | (9,117) | - | - |
| Proceeds from issue of securities (net of transaction costs) | - | 646,824 | - | 51,035 |
| Transfers to restricted cash | (25,702) | (27,855) | - | - |
| Capital return | (77,209) | (56,148) | (77,209) | - |
| Dividends paid | (85,158) | (59,334) | (4,783) | - |
| Repayment of loan by related parties | - | - | 77,411 | - |
| Loans advanced to related parties | - | - | (8,232) | (122,812) |
| Payments to related parties | - | - | - | (841) |
| Purchase of derivative financial instrument | (4,818) | - | - | - |
| Net cash flows from financing activities | (214,022) | 944,900 | (12,813) | (72,618) |
| Net increase/(decrease) in cash and cash equivalents | 59,327 | (104,453) | (22,051) | (165,628) |
| Cash and cash equivalents at the beginning of the year | 122,690 | 223,367 | 34,304 | 204,129 |
| Effects of exchange rate movements on cash and cash equivalents | 4,451 | 3,776 | 208 | (4,197) |
| Cash and cash equivalents at the end of the year | 3.1 186,468 | 122,690 | 12,461 | 34,304 |

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes.

Atlas Arteria International Limited
Atlas Arteria Limited

Notes to the Financial Reports

1 Introduction

Atlas Arteria - Stapled security

An Atlas Arteria (“ALX”) stapled security comprises one Atlas Arteria International Limited (“ATLIX”) share ‘stapled’ to one Atlas Arteria Limited (“ATLAX”) share to create a single listed security traded on the Australian Securities Exchange (“ASX”). The stapled securities cannot be traded or dealt with separately.

AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements* require one of the stapled entities of a stapled structure to be identified as the parent entity for the purpose of preparing a consolidated Financial Report. In accordance with this requirement, ATLIX has been identified as the parent entity of the consolidated group comprising ATLIX and its controlled entities and ATLAX and its controlled entities (“ATLAX Group”), together comprising ALX.

As permitted by ASIC Class Order 13/1050 and ASIC Corporations (Stapled Group Reports) Instrument 2015/838, these reports consist of the Financial Report of ATLIX and its controlled entities at the end of and during the year (collectively, “ALX” or the “Group”) and the Financial Report of ATLAX and its controlled entities at the end of and during the year (collectively, “ATLAX Group”). The Group and the ATLAX Group are collectively referred to as the “Groups”.

The Financial Report of the Group should be read in conjunction with the separate Financial Report of the ATLAX Group presented in these reports for the year ended 31 December 2018.

Basis of preparation

Both ATLIX and ATLAX are for-profit entities for the purpose of preparing the Financial Reports.

The Financial Reports were authorised for issue by the directors of the ATLIX Board and the ATLAX Board (together, the “Boards”) on 27 February 2019 and 28 February 2019 respectively. The Boards have the power to amend and reissue the Financial Reports.

The Financial Reports are general purpose financial reports that:

- have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) and the *Corporations Act 2001* (where applicable)
- have also been prepared in accordance with and comply International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”)
- include the assets and liabilities of all subsidiaries as at 31 December 2018 and the results of the subsidiaries for the year then ended. Inter-entity transactions with, or between, subsidiaries are eliminated in full on consolidation
- have been prepared under the historical cost conventions except for certain assets and liabilities which have been measured at fair value
- are presented in Australian dollars with all values rounded to the nearest thousand dollars unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191.

Significant accounting policies and key judgements and estimates are contained in shaded text and included in the relevant note. These policies have been consistently applied to all years presented, unless otherwise stated. Refer note 7.5 for other accounting policies which have not been presented along with their respective notes.

Certain prior year amounts in the Financial Reports and accompanying notes have been reclassified to conform to the current year presentation. The reclassifications had no effect on previously reported consolidated total assets, total liabilities, comprehensive income or shareholders’ equity.

Critical accounting estimates and judgements

The preparation of the Financial Reports in accordance with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the accounting policies. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including reasonable expectations of future events. The directors believe the estimates used in the preparation of the Financial Reports are reasonable. Actual results in the future may differ from those reported.

Significant judgments made in applying accounting policies, estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed in the following notes:

- Income tax (Note 2.4)
- Control assessment (Note 3.2 and 6.2)
- Impairment of assets and reversal of impairment (Note 3.2)
- Intangible assets – Tolling concessions (Note 4.1)

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Notes to the Financial Reports (continued)

2 Financial performance

2.1 Profit/(loss) for the year

Revenue recognition

Revenue and other income is recognised as follows:

| | |
|------------------------|---|
| Toll revenue | Toll revenue from customers is earned as performance obligations are satisfied. A singular performance obligation has been assessed as the use of the road, and the transaction price which is calculated based on passing through toll points, is fully allocated to this performance obligation. Toll revenue is recognised at the time the customers use the road. |
| Other revenue | Other revenue from customers consists of revenue earned in respect to rental income from cell towers and income from advertising hoardings on the toll road. Other revenue is recognised over the period of the contract in accordance with the contracts governing these services as performance obligations are satisfied. |
| Interest income | Interest income is brought to account on an accruals basis. |

Change in accounting policy

AASB 15 *Revenue from Contracts with Customers* replaces all the current guidance on revenue recognition from contracts with customers. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services are transferred to the customer.

The Groups have adopted AASB 15 from 1 January 2018 which resulted in changes in accounting policies and the analysis of possible adjustments to the amounts recognised in the financial reports. In accordance with the transition provisions in AASB 15, the Groups have elected to adopt the new rules retrospectively, however this has not resulted in any adjustments to the prior year comparatives.

The profit/(loss) from operations before income tax includes the following specific items of income and expense:

a) Revenue and other income

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue from operations: | | | | |
| Toll revenue | 126,811 | 75,697 | - | - |
| Other revenue | 769 | 343 | 1,678 | - |
| Interest income: | | | | |
| Related parties | 877 | 1,564 | 3,862 | 3,024 |
| Other persons and corporations | 3,921 | 1,128 | - | - |
| Total interest income | 4,798 | 2,692 | 3,862 | 3,024 |
| Total revenue from operations | 132,378 | 78,732 | 5,540 | 3,024 |
| Other income from operations: | | | | |
| Gain on revaluation ¹ | 13,470 | 375,615 | - | 61,710 |
| Other income | 139 | 42 | - | - |
| Reversal of impairment on financial assets ² | - | - | 161 | - |
| Net foreign exchange gain | - | 14,119 | 63 | 2,247 |
| M6 Toll management fee income | - | 4,493 | - | - |
| Guarantee fee income | - | - | - | 1,185 |
| Total other income from operations | 13,609 | 394,269 | 224 | 65,142 |
| Total revenue and other income from operations | 145,987 | 473,001 | 5,764 | 68,166 |

- The current year includes a gain on revaluation of ALX's existing investment in Warnowquerung GmbH & Co KG, the concessionaire of Warnow Tunnel and its general partner Warnowquerung Verwaltungsgesellschaft mbH (collectively "WQG"). Refer note 6.2 for details. In 2017, there was a gain on revaluation on the Groups' existing investment in Dulles Greenway.
- Refer note 4.3 for details.

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Notes to the Financial Reports (continued)

2.1 Profit/(loss) for the year (continued)

b) Operating expenses

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Operating expenses | | | | |
| Amortisation of tolling concession | 61,768 | 36,520 | - | - |
| Cost of operations: | | | | |
| Toll road maintenance expenses | 10,597 | 5,524 | - | - |
| Other operating expenses | 12,042 | 5,234 | 172 | - |
| Employment costs | 9,487 | 4,489 | 3,236 | 730 |
| Total cost of operations | 32,126 | 15,247 | 3,408 | 730 |
| Manager's and adviser's performance fees ¹ | 70,625 | 7,979 | 4,984 | 639 |
| Manager's and adviser's base fees | 36,759 | 32,813 | 2,236 | 2,625 |
| Consulting and administration fees | 11,920 | 7,613 | 6,104 | 3,454 |
| Other expenses | 5,427 | 4,019 | 1,024 | 1,045 |
| Net foreign exchange loss | 3,483 | - | - | - |
| Depreciation and amortisation | 350 | 152 | 39 | - |
| Total operating expenses² | 222,458 | 104,343 | 17,795 | 8,493 |

1. Refer note 4.4 for details.

2. Includes ALX's management internalisation expenses of \$10.3 million (2017: 0.5 million).

c) Finance costs

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Interest on debt | 89,975 | 51,511 | - | - |
| Mark to market loss on derivatives | 2,055 | - | - | - |
| Issue costs written off on loans repaid during the year ¹ | 6,688 | - | - | - |
| Fee on early repayment of borrowings from financial institutions | 4,576 | - | - | - |
| Amortisation of issue cost on borrowings from financial institutions | 5,626 | 2,284 | - | - |
| Total finance costs | 108,920 | 53,795 | - | - |

1. Refer note 5.1(c) for details.

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Notes to the Financial Reports (continued)

2.2 Distributions

Distributions

A distribution payable is recognised for the amount of any distribution declared, or publicly recommended by the directors on or before the end of the year but not distributed at balance date.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Distributions paid | | | | |
| Distribution paid on 5 October 2018 ¹ | 81,992 | - | 81,992 | - |
| Dividend paid on 13 April 2018 ² | 80,375 | - | - | - |
| Dividend paid on 29 September 2017 ³ | - | 58,188 | - | - |
| Distribution paid on 7 April 2017 ⁴ | - | 57,294 | - | - |
| Total distributions paid | 162,367 | 115,482 | 81,992 | - |

| | Cents per stapled security | Cents per stapled security | Cents per stapled security | Cents per stapled security |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Distributions paid | | | | |
| Distribution per security paid on 5 October 2018 ¹ | 12.0 | - | 12.0 | - |
| Dividend per security paid on 13 April 2018 ² | 12.0 | - | - | - |
| Dividend per security paid on 29 September 2017 ³ | - | 10.0 | - | - |
| Distribution per security paid on 7 April 2017 ⁴ | - | 10.0 | - | - |
| Total distributions paid | 24.0 | 20.0 | 12.0 | - |

1. Comprised a capital return of 11.3 cps and an unfranked Australian ordinary dividend of 0.7 cps. The distribution was paid in full by ATLAX.
2. Comprised an ordinary dividend of 12.0 cps. The dividend was paid in full by ATLIX.
3. Comprised an ordinary dividend of 10.0 cps. The dividend was paid in full by ATLIX.
4. Comprised a capital return of 9.8 cps and an ordinary dividend of 0.2 cps. The distribution was paid in full by ATLIX.

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Notes to the Financial Reports (continued)

2.3 Earnings per stapled security

Earnings per stapled security

Basic earnings per stapled security

Basic earnings per stapled security is determined by dividing the profit attributable to security holders by the weighted average number of securities on issue during the year.

Diluted earnings per stapled security

Diluted earnings per stapled security is calculated by adjusting basic earnings per stapled security for the effects of all dilutive potential ordinary stapled securities.

| | ATLIX | ATLIX | ATLAX | ATLAX |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Year ended 31 Dec 2018 cents | Year ended 31 Dec 2017 cents | Year ended 31 Dec 2018 cents | Year ended 31 Dec 2017 cents |
| Basic earnings/(loss) per ATLIX/ATLAX share | 11.33 | 77.98 | (2.49) | 9.68 |
| Diluted earnings/(loss) per ATLIX/ATLAX share | 11.33 | 77.98 | (2.49) | 9.68 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Earnings/(loss) used in the calculation of basic and diluted profit/(loss) per ATLIX/ATLAX share ¹ | 76,683 | 462,200 | (16,831) | 57,383 |
| | Number | Number | Number | Number |
| Weighted average number of shares used in calculation of basic earnings/(loss) per ATLIX/ATLAX share | 676,545,113 | 592,724,448 | 676,545,113 | 592,724,448 |
| Adjustment for employee performance rights ¹ | 101,974 | - | 101,974 | - |
| Weighted average number of shares and potential shares used in calculation of diluted earnings/(loss) per ATLIX/ATLAX share | 676,647,087 | 592,724,448 | 676,647,087 | 592,724,448 |

1. Refer note 7.4 for details.

The basic and diluted profit per ALX stapled security for the year ended 31 December 2018 was 8.84 cps (2017: 87.66 cps) using ALX profit attributable to ALX stapled security holders of \$59.9 million (2017: \$519.6 million).

2.4 Income tax

Income tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Reports, and to unused tax losses.

Deferred income tax is determined using the balance sheet method, being the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Reports. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Under current Bermudan law, ATLIX will not be subject to any income, withholding or capital gains taxes in Bermuda. Controlled entities of ATLIX that are subject to taxes in their jurisdictions recognise income tax using the balance sheet approach of tax effect accounting.

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Notes to the Financial Reports (continued)

2.4 Income tax (continued)

Income tax expense/(benefit)

This note provides an analysis of the Groups' income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Groups' tax position.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| (a) Income tax expense/(benefit) | | | | |
| Income tax expense/(benefit) comprises: | | | | |
| Current tax | 2,118 | 1,699 | (1) | 1,664 |
| Deferred tax | (1,220) | (18,448) | - | - |
| Total income tax expense/(benefit) | 898 | (16,749) | (1) | 1,664 |

(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable

| | | | | |
|--|-----------------|-----------------|-----------------|--------------|
| Profit/(loss) from operations before income tax | 60,750 | 502,834 | (16,832) | 59,047 |
| Prima facie income tax on profit at the Australian tax rate of 30% | 18,225 | 150,850 | (5,050) | 17,714 |
| Impact of different tax rates of operations in jurisdictions other than Australia | 141,010 | (93,988) | 50 | (2,098) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| Non-assessable income | (4,088) | (18,513) | (47) | (18,513) |
| Non-deductible expenditure | 1,405 | 670 | 1,354 | 670 |
| Share of net profits/(losses) of investments accounted for using the equity method | (73,842) | (56,391) | 1,440 | 188 |
| Temporary differences not brought to account | 7,152 | 1,147 | (990) | (1,278) |
| Impact of change in tax rates on deferred tax liabilities ¹ | - | (17,484) | - | - |
| Deferred tax asset on taxable losses not brought to account | (88,964) | 16,960 | 3,242 | 4,981 |
| Aggregate income tax expense/(benefit)² | 898 | (16,749) | (1) | 1,664 |

(c) Tax losses

| | | | | |
|---|----------------|---------|----------------|---------|
| Unused tax losses for which no deferred tax asset has been recognised | 274,589 | 230,002 | 274,056 | 229,477 |
| Potential tax benefit of unused tax losses | 72,140 | 60,174 | 72,039 | 60,074 |

- The reduction in deferred tax liability recognised on acquisition of additional interest in TRIP II by \$17.5 million due to decrease in United States Federal Income tax rate.
- Neither ALX nor the ATLAX Group recognised any current or deferred tax that was debited or credited directly to equity.

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Notes to the Financial Reports (continued)

2.4 Income tax (continued)

Deferred tax assets and liabilities

The Groups have no deferred tax assets. The movement in the balance of deferred tax liability is as follows:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Deferred tax liabilities | | | | |
| Opening balance at 1 January | (40,333) | - | - | - |
| Acquisition of subsidiary ¹ | (14,193) | (61,712) | - | - |
| Amortisation of Deferred Tax Liabilities ("DTL") | 1,220 | 964 | - | - |
| Revaluation due to changes in income tax rates | - | 17,484 | - | - |
| Foreign exchange movement | (4,403) | 2,931 | - | - |
| Closing balance at 31 December | (57,709) | (40,333) | - | - |

1. In the current year, a DTL of \$14.2 million was recognised following the fair value pick up of intangible assets resulting from acquisition of the remaining 30% equity interest in WQG. In the prior year, a DTL of \$61.7 million was recognised following the fair value pick up of intangible assets resulting from acquisition of the remaining 50% estimated economic interest in TRIP II.

2.5 Segment information

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the directors of the companies.

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Boards in their capacity as chief operating decision makers. However, the Boards do not manage the day-to-day activities of the business. The directors have appointed Macquarie Fund Advisers Pty Limited ("MFA") to run and manage the ongoing operations of the business and pay a quarterly management fee in return for these services.

The Boards consider the business from the aspect of each of the portfolio assets and have identified four and one operating segments for ALX and the ATLAX Group respectively. The segments of ALX are the investments in APRR, ADELAC, Dulles Greenway and Warnow Tunnel. The only segment of the ATLAX Group is the investment in Dulles Greenway.

The operating segment note discloses the segment revenue and segment EBITDA for the year ended 31 December 2018 by individual portfolio asset. The ALX Boards are provided with performance information on each asset to monitor the operating performance of each asset.

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Notes to the Financial Reports (continued)

2.5 Segment information (continued)

b) Segment information provided to the Boards

The proportionally consolidated segment information provided to the Boards for the reportable segments for the year ended 31 December 2018, based on ALX's economic ownership interest is as follows:

| ALX | Year ended | APRR \$'000 | ADELAC \$'000 | Dulles Greenway \$'000 | Warnow Tunnel \$'000 | Total ALX \$'000 | Total ATLAX |
|-------------------------|-------------------------|------------------|------------------|------------------------------|----------------------------|---------------------|----------------|
| Segment revenue | 31 December 2018 | 1,002,663 | 22,184 | 121,800 | 15,618 | 1,162,265 | 16,361 |
| | 31 December 2017 | 751,765 | 16,787 | 98,105 | 11,574 | 878,231 | 13,178 |
| Segment expenses | 31 December 2018 | (262,489) | (3,874) | (22,772) | (3,697) | (292,832) | (3,059) |
| | 31 December 2017 | (200,805) | (3,002) | (18,200) | (3,378) | (225,385) | (2,445) |
| Segment EBITDA | 31 December 2018 | 740,174 | 18,310 | 99,028 | 11,921 | 869,433 | 13,302 |
| | 31 December 2017 | 550,960 | 13,785 | 79,905 | 8,196 | 652,846 | 10,733 |
| EBITDA margin | 31 December 2018 | 74% | 83% | 81% | 76% | 75% | 81% |
| | 31 December 2017 | 73% | 82% | 81% | 71% | 74% | 81% |

The segment revenue disclosed in the table above primarily relates to toll revenue generated by the assets from external customers and the proportionally consolidated segment information provided to the Boards for the reportable segments for the year ended 31 December 2018 and year ended 31 December 2017.

ATLAX Group information includes its economic ownership in Dulles Greenway only.

A reconciliation of Groups' segment revenue and EBITDA to its total revenue and profit from operations before income tax is provided as follows:

| | ALX Year ended 31 Dec 2018 \$'000 | ALX Year ended 31 Dec 2017 \$'000 | ATLAX Group Year ended 31 Dec 2018 \$'000 | ATLAX Group Year ended 31 Dec 2017 \$'000 |
|--|--|--|--|--|
| Reconciliation of segment revenue to revenue | | | | |
| Segment revenue | 1,162,265 | 878,231 | 16,361 | 13,178 |
| Revenue attributable to non-consolidated investments | (1,036,064) | (878,231) | (16,361) | (13,178) |
| Unallocated revenue and other income | 19,786 | 473,001 | 5,764 | 68,166 |
| Total revenue and other income from operations | 145,987 | 473,001 | 5,764 | 68,166 |
| Reconciliation of segment EBITDA to profit/(loss) before income tax | | | | |
| Segment EBITDA | 869,433 | 652,846 | 13,302 | 10,733 |
| EBITDA attributable to non-consolidated investments | (766,738) | (652,846) | (13,302) | (10,733) |
| Unallocated revenue | 19,786 | 473,001 | 5,764 | 68,166 |
| Unallocated expenses | (198,952) | (104,343) | (17,795) | (8,493) |
| Finance costs | (108,920) | (53,795) | - | - |
| Share of net profits/(losses) of investments accounted for using the equity method | 246,141 | 187,971 | (4,801) | (626) |
| Profit/(loss) from operations before income tax | 60,750 | 502,834 | (16,832) | 59,047 |

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Notes to the Financial Reports (continued)

3 Cash and investments

3.1 Cash, cash equivalents and restricted cash

Cash, cash equivalents and restricted cash

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Restricted cash includes funds held in escrow, funds backing guarantees or amounts otherwise not available to meet short term commitments of the Groups and is classified as a non-current asset.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Current | | | | |
| Cash and cash equivalents (a) | 186,468 | 122,690 | 12,461 | 34,304 |
| | 186,468 | 122,690 | 12,461 | 34,304 |
| Non-current | | | | |
| Restricted cash (b) | 203,961 | 153,440 | - | - |
| | 203,961 | 153,440 | - | - |

a) Cash and cash equivalents

During the year cash on hand was held in bank accounts earning money market rates of interest between nil to 2.52% (2017: nil to 1.71%) per annum.

Cash equivalents include TRIP II's money market deposits outstanding which matured within 30 days and paid interest between 2.32% to 2.56% (2017: 1.04% to 1.23%) per annum.

b) Restricted cash

This comprises funds held in escrow pursuant to the TRIP II bond indenture agreements, WQG loan agreements and cash-backed guarantees provided in relation to Warnowquerung GmbH & Co. KG. Discussion of the Groups' policies concerning the management of credit risk can be found in Note 5.4.

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Notes to the Financial Reports (continued)

3.2 Investments accounted for using the equity method

Associates

Associates are entities over which the Groups have significant influence but not control. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Groups' investment in associates includes the fair value of goodwill (net of any accumulated impairment loss) identified on acquisition.

The Groups' share of their associates' post-acquisition profits or losses is recognised in profit or loss, and their share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Groups' share of losses in an associate equals or exceeds its interest in the associate, including any long term interests that, in substance, form part of the Groups' net investment in the associate, the Groups do not recognise further losses, unless they have incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Groups and their associates are eliminated to the extent of the Groups' interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Groups.

Joint Arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending upon the contractual rights and obligations each investor has, and the legal structure of the joint arrangement. The Groups have no joint operations and account for joint ventures using the equity method.

Impairment of assets and reversal of impairment

An investment accounted for using the equity method is assessed for impairment whenever there are indications that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of the asset is determined as the higher of the fair value less costs of disposal and the value in use. If it is not possible to determine a recoverable amount for the individual assets, the assets are assessed together in the smallest group of assets which generate cash inflows that are largely independent of those from other assets or groups of assets.

Discounted cash flow analysis is the methodology applied in determining recoverable amount. Discounted cash flow analysis is the process of estimating future cash flows that are expected to be generated by an asset and discounting these to their present value by applying an appropriate discount rate. The discount rate applied to the cash flows of a particular asset is reflective of the uncertainty associated with the future cash flows. Periodically, independent traffic forecasting experts provide a view on the most likely level of traffic to use the toll road having regard to a wide range of factors including development of the surrounding road network and economic growth in the traffic corridor.

Assets (other than goodwill) that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. An impairment loss is reversed if the recoverable amount of an asset is more than its carrying value. AASB 136 *Impairment of Assets* states that impairment losses shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the estimated service potential of the asset has increased. The impairment loss is not reversed just because of the passage of time, even if the recoverable amount of the asset becomes higher than its carrying value.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Investment in associates and joint venture – equity method | 1,569,970 | 1,483,337 | 164,644 | 153,110 |
| | 1,569,970 | 1,483,337 | 164,644 | 153,110 |

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Notes to the Financial Reports (continued)

3.2 Investments accounted for using the equity method (continued)

Information relating to associates and joint arrangements is set out below:

a) Carrying amounts

| Name of Entity ^{1,2} | Country of Incorporation/ Principal Place of Business | Principal Activity | ALX Economic Interest | ALX | ALX | ATLAX Economic Interest | ATLAX Group | ATLAX Group |
|---|--|---|---|-----------------------------------|-----------------------------------|---|-----------------------------------|-----------------------------------|
| | | | As at 31 Dec 2018 and 31 Dec 2017 % | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 and 31 Dec 2017 % | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| MAF2 ³ | Luxembourg | Investment in toll road network located in the east of France (APRR) | 50.0/50.0 | 1,569,953 | 1,483,327 | -/- | - | - |
| TRIP II ⁴ | USA | Investment in toll road located in northern Virginia, USA | -/- | - | - | 13.4/13.4 | 164,627 | 153,100 |
| WQG ⁵ | Germany | Investment in toll road located in Rostock, north-eastern Germany | -/70.0 | - | - | -/- | - | - |
| Chicago Skyway Partnership ("CSP") ⁶ | USA | Former owner of an investment in toll road located south of Chicago, USA | 50.0/50.0 | 14 | 10 | 50.0/50.0 | 14 | 10 |
| Indiana Toll Road Partnership ("ITRP") ⁷ | USA | Former owner of an investment in toll road located in northern Indiana, USA | 49.0/49.0 | 3 | - | 49.0/49.0 | 3 | - |
| | | | | 1,569,970 | 1,483,337 | | 164,644 | 153,110 |

- TRIP II and WQG are in "lockup" under their debt documents, meaning that they are currently unable to make distributions to ALX and the ATLAX Group. ALX and ATLAX Group's investment in TRIP II cannot come out of lockup before December 2019.
- All associates and joint arrangements have 31 December year end reporting requirements except for MAF2 which has 31 March.
- ALX's investment in MAF2 is classified as an associate as any decision made with regard to the relevant activities requires 85% of the voting members to proceed, meaning at least 85% of shareholders must agree before any decision can be reached.
- The ATLAX Group has a 13.4% interest in TRIP II, the concessionaire for Dulles Greenway and is accounted for as equity accounted associate. ALX has a 100% estimated economic interest in TRIP II after combining ATLAX Group's 13.4% equity interest with ATLIX Group's 86.6% economic interest. Accordingly, TRIP II is accounted for as subsidiary of ALX.
- On 15 August 2018, ALX announced that it had entered into an agreement to acquire the remaining 30% equity interest and shareholder loan in WQG for €3.7 million as gross consideration prior to adjusting for applicable transaction taxes. Financial close for the acquisition was reached on 20 September 2018 ("WQG Acquisition Date"). Following the acquisition, WQG is accounted for as a subsidiary and its results consolidated from the WQG Acquisition Date. As such it is no longer accounted for as a joint venture. Refer note 6.2 for details.
- At 31 December 2018, ALX legally owned a 50% equity interest in CSP, the former owner of the Chicago Skyway toll Road, but was no longer exposed to any variable returns from the ongoing operation of the toll road. The small residual investment balance represents cash left in CSP for payment of expenses.
- At 31 December 2018, ALX legally owned a 49% equity interest in ITRP, the former owner of the Indiana Toll Road, but was no longer exposed to any variable returns from the ongoing operations of the toll road. The small residual investment balance represents cash left in ITRP for payment of expenses.

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Notes to the Financial Reports (continued)

3.2 Investments accounted for using the equity method (continued)

b) Movement in carrying amounts

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|-------------|-------------|-------------|-------------|
| | Year ended | Year ended | Year ended | Year ended |
| | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at the beginning of the year | 1,483,337 | 950,912 | 153,110 | 19,972 |
| Investment in associates (including transaction costs) ¹ | - | 673,121 | - | 160,963 |
| Share of profits/(losses) after income tax | 246,141 | 187,971 | (4,801) | (626) |
| Distributions received | (249,417) | (147,779) | - | - |
| Gain on revaluation of joint venture/associate ² | 13,470 | 375,615 | - | 61,710 |
| De-recognition of joint venture/associate | (13,470) | (598,891) | - | (80,552) |
| Foreign exchange movement | 89,909 | 42,388 | 16,335 | (8,357) |
| Carrying amount at the end of the year | 1,569,970 | 1,483,337 | 164,644 | 153,110 |

- On 24 October 2017, ALX acquired an additional 9.72% interest in MAF2 with a final purchase price of €439.9 million. On 16 May 2017, ALX acquired the remaining 50% estimated economic interest in TRIP II for US\$445.0 million. Refer footnote 4 of note 3.2(a) for details of ATLAX's investment in TRIP II.
- The gain on revaluation of joint venture in 2018 of \$13.5 million relates to revaluation of ALX's investment in WQG on acquisition of the additional stake. Refer note 6.2 for detail. The gain on revaluation of associate in 2017 of \$375.6 million and \$61.7 million for ALX and ATLAX Group respectively relates to the revaluation of the Groups' investment in Dulles Greenway on acquisition of their additional stakes in the prior year.

c) Summarised financial information for material associates

The following tables provide summarised financial information for those associates that are material to the Groups. The information disclosed reflects the amounts presented in the Financial Reports of the relevant entities and not the Groups' share of those amounts. They have been amended to reflect adjustments made by the Groups when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

| Summarised Statement of Financial Position | MAF2 ¹ | | TRIP II | |
|---|-------------------|------------------|------------------|------------------|
| | As at | As at | As at | As at |
| | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Total current assets | 1,098,238 | 1,691,692 | 117,034 | 83,816 |
| Total non-current assets | 9,721,036 | 9,411,522 | 2,603,485 | 2,400,788 |
| Total current liabilities | (1,870,916) | (2,001,664) | (83,568) | (81,563) |
| Total non-current liabilities | (7,064,727) | (7,323,317) | (1,411,403) | (1,263,312) |
| Net assets | 1,883,631 | 1,778,233 | 1,225,548 | 1,139,729 |
| Reconciliation to carrying amounts: | | | | |
| Opening net assets | 1,778,233 | 1,604,518 | 1,139,729 | 1,197,640 |
| Profit/(loss) for the year | 492,192 | 454,177 | (35,774) | (48) |
| Distributions paid | (498,753) | (366,826) | - | - |
| Foreign exchange and other equity movements | 111,959 | 86,364 | 121,593 | (57,863) |
| Closing net assets | 1,883,631 | 1,778,233 | 1,225,548 | 1,139,729 |
| ALX's share in % | 50.0% | 50.0% | - | - |
| ALX's share of net assets in \$ | 941,967 | 889,260 | - | - |
| ATLAX Group's share in % | - | - | 13.4% | 13.4% |
| ATLAX Group's share of net assets in \$ | - | - | 164,627 | 153,100 |
| ALX's carrying amount | 1,569,953 | 1,483,327 | - | - |
| ATLAX Group's carrying amount | - | - | 164,627 | - |

- MAF2 proportionately consolidates the results of APRR. APRR has performed an assessment of the impact of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* and has determined that the adoption of these standards at 1 January 2018 has not had a material impact on the results of APRR.

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Notes to the Financial Reports (continued)

3.2 Investments accounted for using the equity method (continued)

c) Summarised financial information for material associates (continued)

| | MAF2 | | TRIP II | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Summarised Statement of Comprehensive Income | | | | |
| Revenue | 2,313,925 | 2,032,718 | 121,736 | 76,041 |
| Profit/(loss) for the year | 492,192 | 454,177 | (35,774) | (48) |
| ALX's share | 246,136 | 191,959 | - | - |
| ATLAX Group's share | - | - | (4,806) | (89) |
| ALX's distributions received | 249,417 | 147,779 | - | - |
| ATLAX Group's distributions received | - | - | - | - |

d) Share of losses not brought to account attributable to immaterial associate¹ and joint venture²

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Share of losses not brought to account attributable to immaterial associate and joint venture | | | | |
| Balance at the beginning of the year | (24,816) | (22,875) | (2) | - |
| Investment made during the year | - | 60 | - | - |
| Share of profits/(losses) brought to account | 2 | (60) | 2 | - |
| Share of profits/(losses) not brought to account | 438 | (1,941) | - | (2) |
| De-recognition of joint venture ² | 24,376 | - | - | - |
| Balance at the end of the year | - | (24,816) | - | (2) |

1. ITRP, accounted for using the equity method.

2. On 20 September 2018, ALX acquired the remaining 30% equity interest and shareholder loan in WQG for €3.7 million as gross consideration prior to adjusting for applicable transaction taxes. Prior to this, ALX's investment in WQG was classified as a joint venture. Following the acquisition, WQG is accounted for as a subsidiary and its results consolidated from the WQG Acquisition Date. Refer footnote 5 of note 3.2(a) for details.

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Notes to the Financial Reports (continued)

4 Other balance sheet assets and liabilities

4.1 Intangible assets – Tolling concessions

Intangible assets – Tolling concessions

Tolling concessions are intangible assets and represent the right to levy tolls in respect of controlled motorways. Tolling concessions relating to the non-controlled investments are recognised as a component of the investments accounted for using the equity method.

Tolling concessions have a finite useful life by the terms of the concession arrangement and are carried at cost which represents the fair value of the consideration paid on acquisition less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of tolling concessions over their estimated useful lives which are as follows:

| Asset description | Estimated useful life ¹ | Amortisation basis |
|---------------------|------------------------------------|---------------------|
| Dulles Greenway | Period to February 2056 | Straight line basis |
| Warnow Tunnel | Period to September 2053 | Straight line basis |
| APRR ² | Period to November 2035 | Straight line basis |
| ADELAC ² | Period to December 2060 | Straight line basis |

- There has been no change to the estimated useful life during the year.
- The tolling concessions in relation to the non-controlled investments are not recognised on the statement of financial position but instead form part of investments accounted for using the equity method. The amortisation of tolling concessions in relation to the non-controlled investments is included in the share of net profit of investments accounted for using the equity method.

Impairment

Tolling concessions with a finite useful life are assessed for impairment whenever there are indications that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Refer note 3.2 for additional detail on the accounting policy for impairment of assets and reversal of impairment.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Balance at the beginning of the year | 2,189,724 | - | - | - |
| Acquisition cost ¹ | 214,772 | 2,339,025 | - | - |
| Amortisation of tolling concession | (61,768) | (36,520) | - | - |
| Foreign exchange movement | 235,706 | (112,781) | - | - |
| Balance at the end of the year | 2,578,434 | 2,189,724 | - | - |

- In the current year, a tolling concession of \$214.8 million was recognised following the acquisition of the remaining 30% equity interest in WQG. In the prior year, a tolling concession of \$2,339.0 million was recognised following the acquisition of the remaining 50% estimated economic interest in TRIP II.

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Notes to the Financial Reports (continued)

4.2 Goodwill

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included on the face of the statement of financial position. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Impairment

Goodwill is not subject to amortisation but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of a cash generating unit ("CGU") is determined based on fair value less costs of disposal calculations which require the use of assumptions. The calculations use detailed cash flow projections covering the remaining concession life of the CGU.

Refer note 3.2 for additional detail on the accounting policy for impairment.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Balance at the beginning of the year | 58,726 | - | - | - |
| Acquisition cost ¹ | 14,193 | 61,712 | - | - |
| Foreign exchange movement | 6,471 | (2,986) | - | - |
| Balance at the end of the year | 79,390 | 58,726 | - | - |

1. In the current year, goodwill of \$14.2 million was recognised as a result of the deferred tax liability calculated on concession rights value following the acquisition of the remaining 30% equity interest in WQG. Refer note 6.2 for details. In prior year, Goodwill of \$61.7 million was recognised as a result of the deferred tax liability calculated on concession rights value following the acquisition of the remaining 50% estimated economic interest in TRIP II.

Key assumptions used for fair value less costs of disposal calculations – Dulles Greenway

| Assumption | Approach used to determine values |
|---------------------------------|---|
| Traffic volume | Based on the Groups' internal long-term traffic forecasts (which were informed by independent third party analysis conducted as part of the acquisition of the additional 50% estimated economic interest in TRIP II). Traffic forecasts for TRIP II are based on assumptions of traffic growth broadly in line with economic development and population growth within its catchment area. |
| Long term CPI (% annual growth) | Based on the Group's long-term internal forecasts and independent third-party projections, long term CPI rates are forecast to grow by between 2.2% and 2.3%. |

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Notes to the Financial Reports (continued)

4.2 Goodwill (continued)

| Assumption | Approach used to determine values |
|--------------------------------|---|
| Average toll (% annual growth) | <p>Based on current regulation and the Group's long-term internal forecasts.</p> <p>Toll rates for TRIP II were determined by decisions of the State Corporations Commission (SCC) from the road's inception until 31 December 2012. The legislation governing the SCC's decisions stipulates that toll rates must be set at a level that:</p> <ul style="list-style-type: none"> • Will provide the operator with no more than a reasonable rate of return as determined by the SCC; • Is reasonable to the user in relation to the benefit obtained; and • Will not materially discourage use of the roadway by the public. <p>From 1 January 2013 to 1 January 2020, toll rates for TRIP II were determined by a legislated formula that specified that rates would increase annually at the highest of CPI+1%, real GDP or 2.8%.</p> <p>From 2020, the SCC will again determine the rates under the legislative framework that was used pre-2013.</p> <p>The Groups' long-term assumption forecasts toll rates to escalate in a range within the historical experience from inception to 1 January 2020. However, historical results provide no guarantee as new legislation or regulatory decisions could impact future outcomes.</p> |
| Post-tax discount rate | <p>Detailed cash flows were discounted using an equity discount rate of 9%. The discount rate is based on a number of factors including, but not limited to, the asset's nature of operations, regulatory environment, macroeconomic conditions, risk profile and observed market prices for similar transactions.</p> |

Impact of possible changes in key assumptions

The assets and liabilities associated with the CGU were initially recognised in ALX's balance sheet at their fair values on the dates on which ALX achieved control of the CGU. Since the step-up acquisition of TRIP II in 2017, actual traffic experience has been lower than initially forecast, however the estimated fair value of that investment, as at the current reporting date, remains in line with its carrying value. As such, an adverse change in any of the key assumptions could result in the recoverable amount of the CGU falling below its carrying amount. For example, an increase in the discount rate applied to the TRIP II valuation of 0.5% would lead to a reduction in the asset's carrying value by \$96m.

The assumptions used in the fair value less costs of disposal calculation are measured at Level 3 in the fair value hierarchy (refer Note 5.4 for additional detail on the fair value hierarchy).

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Notes to the Financial Reports (continued)

4.3 Other assets

Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost because their cash flows represent solely payments of principal and interest. Interest income from loans and receivables is recognised on an accruals basis.

Receivables are generally received within 30 days of becoming due and receivable. A provision is raised for any doubtful debts based on a review of all outstanding amounts at year end. Bad debts are written off in the year in which they are identified.

Impairment

The Groups were required to revise their impairment methodology under AASB 9 for loan assets carried at amortised cost. The impact of the change in impairment methodology resulted in a loss allowance through the Groups' retained earnings at 1 January 2018 was \$0.3 million (refer note 7.5(e)). The Groups assess, on a forward looking basis, the expected credit losses associated with their loan assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Groups use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Groups' past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Current | | | | |
| Receivables from related parties | - | - | 46,510 | 1,892 |
| Less : Loss allowance | - | - | (108) | - |
| Prepayments | 723 | 724 | 125 | 116 |
| Tax receivable | 279 | 188 | 279 | 188 |
| Trade receivables and other assets | 1,493 | 430 | 531 | - |
| Total current other assets | 2,495 | 1,342 | 47,337 | 2,196 |
| Non-current | | | | |
| Receivables from related parties | - | - | 8,232 | 122,812 |
| Less : Loss allowance | - | - | (18) | - |
| Prepayments | 120 | 140 | 60 | 70 |
| Other assets | 199 | - | - | - |
| Total non-current other assets | 319 | 140 | 8,274 | 122,882 |

The Groups' maximum credit exposure for receivables is the carrying value. Discussion of the Groups' policies concerning the management of credit risk can be found in Note 5.4. The fair values of receivables approximate their carrying values.

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Notes to the Financial Reports (continued)

4.4 Other liabilities

Payables and other liabilities

Liabilities are recognised when an obligation exists to make future payments as a result of a purchase of assets or services, whether or not billed. Trade creditors are generally settled within 30 days.

Provisions

Provisions are recognised when: the Groups have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligations; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Employee benefits

(i) Short-term obligation

Liabilities for salaries, including non-monetary benefits and leaves that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments

Share-based compensation benefits are provided to employees via the Long-Term Incentive Plan (LTI Plan). Information relating to this plan is set out in note 7.4.

The fair value of performance rights granted under the LTI Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted including the market performance conditions and the number of equity instruments expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Performance fees

Historically, performance fees have been payable at 30 June each year in the event that the ALX security price outperforms its benchmark in that year after making up any carried forward underperformance. The performance fee is calculated with reference to the performance of the ALX accumulated index compared with the performance of the S&P/ASX 300 Industrials Accumulation Index. As a result of the agreement to internalise management, the performance fee that has become payable at 30 June 2018 will be the last performance fee to be paid.

The performance fee at 30 June 2018 was determined in accordance with, and due to, the renegotiated management agreements as follows:

- The third instalment of the 2016 performance fee and second instalment of the 2017 performance fee were subject to performance testing and became payable after outperforming their respective performance hurdles at 30 June 2018;
- The third instalment of the 2017 performance fee became payable without further testing as on renegotiation of the management agreements, instalments of performance fees that would be subject to testing in future years became payable immediately at 30 June 2018, regardless of whether respective performance criteria has been met; and
- The 2018 performance fee was calculated at 30 June 2018 based on outperformance of the benchmark and became payable in full at that time.

Performance fees payable are accounted for as a liability in accordance with AASB 9. The liability is recognised at its fair value upon initial and subsequent recognition.

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Notes to the Financial Reports (continued)

4.4 Other liabilities (continued)

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Current | | | | |
| Manager and adviser performance fees payable ¹ | - | 44,689 | - | 4,337 |
| Manager and adviser fees payable | 9,063 | 8,939 | 471 | 707 |
| Provision for toll maintenance | 14,987 | 5,509 | - | - |
| Sundry creditors and accruals | 8,288 | 4,183 | 2,905 | 1,332 |
| Tax payable | 2,521 | 7 | 22 | - |
| Total current other liabilities | 34,859 | 63,327 | 3,398 | 6,376 |
| Non-current | | | | |
| Easement accruals ² | 11,571 | 9,754 | - | - |
| Total non-current other liabilities | 11,571 | 9,754 | - | - |

- For the year ended 30 June 2018, a total performance fee of \$54.7 million (excluding GST) was calculated for ALX (30 June 2017: \$23.9 million). In accordance with, and due to the renegotiation of, the management agreements, the full 2018 performance fee became payable at 30 June 2018. Accordingly, the full 2018 performance fee was recognised as at 30 June 2018.
The second instalment of the 2017 performance fee of \$8.0 million (excluding GST) and third instalment of the 2016 performance fee of \$44.7million (excluding GST) became payable at 30 June 2018 due to outperformance of the benchmark. The third instalment of the 2017 performance fee of \$8.0 million (excluding GST) became payable at 30 June 2018 in accordance with, and due to the renegotiation of, the management agreements.
On 2 July 2018, MFA and ALX's independent directors agreed that the total performance fee of \$115.3 million (excluding GST) be settled by a combination of equity and cash. Accordingly, \$90.3 million were applied to a subscription for new MQA securities and remaining \$25.0 million was settled in cash in July 2018.
- TRIP II has an agreement with the Metropolitan Washington Airports Authority ("MWAA") for easements over Washington Dulles International Airport property necessary to construct, operate and maintain the toll road. The minimum annual payments are accrued using the straight-line method based upon the total minimum payments to be made over the term of the agreement. Additional payments may be due under the agreement should the toll road exceed certain specified traffic volumes.

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Notes to the Financial Reports (continued)

5 Capital and risk management

5.1 Debt at amortised cost

Financial liabilities

Financial liabilities are initially recorded at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Current | | | | |
| Non-recourse TRIP II bonds and accrued interest thereon (a) | 73,595 | 64,585 | - | - |
| Non-recourse WQG borrowings and accrued interest thereon (b) | 3,696 | - | - | - |
| Accrued interest on borrowings from financial institutions (c) | 31 | 1,701 | - | - |
| Total current debt at amortised cost | 77,322 | 66,286 | - | - |
| Non-current | | | | |
| Non-recourse TRIP II bonds and accrued interest thereon (a) | 1,356,286 | 1,222,979 | - | - |
| Non-recourse WQG borrowings and accrued interest thereon (b) | 180,730 | - | - | - |
| Borrowings from financial institutions (c) | 564,946 | 445,373 | - | - |
| Total non-current debt at amortised cost | 2,101,962 | 1,668,352 | - | - |

(a) Non-recourse TRIP II bonds

The ALX consolidated financial statements incorporate bonds raised by TRIP II to finance the construction of infrastructure assets. These bonds are non-recourse beyond the TRIP II assets and ALX has no commitments to provide further debt or equity funding to TRIP II in order to meet these liabilities.

All of these bonds are in the form of fixed interest rate senior bonds, with US\$35.0 million of current interest bonds and US\$971.2 million of zero coupon bonds with maturities extending to 2056.

(b) Non-recourse WQG borrowings

The ALX consolidated financial statements incorporate borrowings raised by WQG to finance the construction of infrastructure assets. These borrowings are non-recourse beyond the WQG assets and ALX has no commitments to provide further debt or equity funding to WQG in order to meet these liabilities. The borrowings are payable in three tranches with maturities extending to 2040.

(c) Borrowings from financial institutions

(i) New APRR asset finance facility

On 31 May 2018, ALX repaid the previous APRR asset finance facility of €150.0 million using a new APRR facility of €350.0 million negotiated with revised terms. On 4 June 2018, a portion of the additional proceeds were used to repay the US\$175.0 million Dulles Greenway asset finance facility along with accrued interest up to this date. Residual proceeds from the new APRR asset finance facility will be used for general corporate expenses.

ALX incurred upfront issue costs of €4.0 million (\$6.2 million), of which, €1.8 million (\$2.8 million) have been amortised to 31 December 2018. Unamortised debt raising costs of €1.7 million (\$2.6 million) on the previous APRR asset finance facility and US\$3.1 million (\$4.1 million) on the Dulles Greenway asset finance facility have been expensed to finance costs in the income statement (refer note 2.1(c) for details).

The maturity date of the new facility remains the same as the previous APRR asset finance facility, i.e. 24 October 2024. Interest accrues on the borrowing at the aggregate of the margin and EURIBOR. Key changes to the margin rates are set out in the following page:

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Notes to the Financial Reports (continued)

5.1 Debt at amortised cost (continued)

| Periods | Margin (Previous APRR facility) | Margin (New APRR facility) |
|---------------------------------|---------------------------------|----------------------------|
| From 24 Oct 2017 to 23 Oct 2019 | 2.25% per annum | 2.25% per annum |
| From 24 Oct 2019 to 23 Oct 2021 | 2.50% per annum | 2.25% per annum |
| From 24 Oct 2021 to 23 Oct 2022 | 2.75% per annum | 2.25% per annum |
| From 24 Oct 2022 to 23 Oct 2023 | 3.25% per annum | 2.75% per annum |
| From 24 Oct 2023 to 23 Oct 2024 | 3.75% per annum | 3.25% per annum |

(ii) Previous APRR asset finance facility

In October 2017, ALX drew down €150.0 million of a seven-year, senior secured facility to facilitate the acquisition of a 9.72% stake in MAF2 and incurred interest and amortisation expense of €4.0 million (\$6.2 million) up to the date of refinancing during the current year.

(iii) Dulles Greenway asset finance facility

In May 2017, ALX drew down US\$175.0 million of an eight year bullet financing facility to facilitate the acquisition of the remaining 50% stake in TRIP II and incurred interest, amortisation expense and early repayment fee of US\$12.1 million (\$15.7 million) up to the date of repayment during the current year.

5.2 Contributed equity

| | Attributable to ATLIX equity holders | | Attributable to ATLAX equity holders | |
|---|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Ordinary shares | 1,995,994 | 1,911,877 | 197,311 | 268,334 |
| Contributed equity | 1,995,994 | 1,911,877 | 197,311 | 268,334 |
| On issue at the beginning of the year | 1,911,877 | 1,323,651 | 268,334 | 213,245 |
| Issue of Placement securities ¹ | - | 168,054 | - | 14,021 |
| Issue of Security Purchase Plan securities ¹ | - | 20,165 | - | 1,682 |
| Application of performance fees to subscription for new securities ² | 84,117 | 48,585 | 6,186 | 4,054 |
| Issue of Institutional entitlement securities ¹ | - | 329,257 | - | 28,541 |
| Issue of Retail entitlement securities ¹ | - | 78,313 | - | 6,791 |
| Capital return | - | (56,148) | (77,209) | - |
| On issue at the end of the year | 1,995,994 | 1,911,877 | 197,311 | 268,334 |

1. Net of transaction costs.

2. During the year ended 31 December 2018, \$90.3m of the full 2018 performance fee, the second and third instalments of the 2017 performance fee and the third instalment of June 2016 performance fee (31 December 2017: first instalment of the June 2017 performance fee and second instalment of the June 2016 performance fee) were applied to a subscription for new ATLAX and ATLIX securities, the remaining \$25.0m of performance fees were settled in cash.

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Notes to the Financial Reports (continued)

5.2 Contributed equity (continued)

| | Attributable to ATLIX equity holders | | Attributable to ATLAX equity holders | |
|---|--------------------------------------|-----------------------------|--------------------------------------|-----------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | Number of shares '000 | Number of shares '000 | Number of shares '000 | Number of shares '000 |
| On issue at the beginning of the year | 669,789 | 530,130 | 669,789 | 530,130 |
| Issue of Placement securities | - | 38,144 | - | 38,144 |
| Issue of Security Purchase Plan securities | - | 4,664 | - | 4,664 |
| Application of performance fees to subscription for new securities ¹ | 13,476 | 8,942 | 13,476 | 8,942 |
| Issue of Institutional entitlement securities | - | 70,994 | - | 70,994 |
| Issue of Retail entitlement securities | - | 16,915 | - | 16,915 |
| On issue at the end of the year | 683,265 | 669,789 | 683,265 | 669,789 |

1. During the year ended 31 December 2018, full 2018 performance fee, the second and third instalments of the 2017 performance fee and the third instalment of June 2016 performance fee (31 December 2017: first instalment of the June 2017 performance fee and second instalment of the June 2016 performance fee) were applied to a subscription for new ATLAX and ATLIX securities.

Ordinary shares in ATLIX and in ATLAX

Each fully paid stapled security confers the right to vote at meetings of security holders, subject to any voting restrictions imposed on a security holder under the *Corporations Act 2001* in Australia, Companies Act in Bermuda and the ASX Listing Rules. On a show of hands, every security holder present in person or by proxy has one vote.

On a poll, every security holder who is present in person or by proxy has one vote for each fully paid share in respect of ATLIX and one vote for each fully paid share in respect of ATLAX.

The directors of ATLIX and ATLAX may declare distributions which are appropriate given the financial position of ATLIX and ATLAX.

If ATLIX and ATLAX are wound up, the liquidator may, with the sanction of an extraordinary resolution and any other requirement of law, divide among the security holders in specie or in kind the whole or any part of the assets of ATLIX and ATLAX.

5.3 Reserves

| | Attributable to ATLIX equity holders | | Attributable to ATLAX equity holders | |
|---------------------------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Balance of reserve | | | | |
| Foreign currency translation reserve | 190,155 | 28,122 | (7,669) | (24,216) |
| Other reserve ¹ | - | - | 141 | - |
| Balance at the end of the year | 190,155 | 28,122 | (7,528) | (24,216) |

1. Refer note 7.4 for details.

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Notes to the Financial Reports (continued)

5.3 Reserves (continued)

| | Attributable to ATLIQ equity holders | | Attributable to ATLAX equity holders | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 | Year ended 31 Dec 2018 \$'000 | Year ended 31 Dec 2017 \$'000 |
| Movements of reserves | | | | |
| Foreign currency translation reserve | | | | |
| Balance at the beginning of the year | 28,122 | 58,679 | (24,216) | (6,979) |
| Net exchange differences on translation of foreign controlled entities | 161,955 | (422) | 16,547 | (14,518) |
| Transfer to accumulated losses ¹ | 78 | (30,135) | - | (2,719) |
| Balance at the end of the year | 190,155 | 28,122 | (7,669) | (24,216) |
| Other reserve | | | | |
| Balance at the beginning of the year | - | (301) | - | (152) |
| Other equity transactions | - | 301 | - | 152 |
| Employee share performance rights ² | - | - | 141 | - |
| Balance at the end of the year | - | - | 141 | - |

- During the year ended 31 December 2018, foreign exchange translation gains in ATLIQ Group of \$0.1 million were transferred to accumulated losses from foreign currency translation reserves following the acquisition of the remaining 30% interest of WQG. These transfers arose as the increase in investment is treated as a disposal of the existing interest in joint venture. Refer note 6.2. for details.
During the year ended 31 December 2017, foreign exchange translation gains in ATLIQ Group and ATLAX Group of \$30.1 million and \$2.7 million respectively were transferred to accumulated losses from foreign currency translation reserves following the acquisition of the remaining 50% estimated economic interest of TRIP II. These transfers arose as the increase in investment was treated as a disposal of the existing interest in associate.
- Refer note 7.4 for details.

5.4 Financial risk and capital management

Financial risk management

The Groups' activities expose them to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Groups' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance of the Groups. The Groups use derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures.

The Risk Management Policy and Framework is implemented by management under policies approved by the Boards. MFA identifies, quantifies and qualifies financial risks and provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Derivatives

i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

ii) Fair value measurement

From time to time, the Group enters into forward exchange contracts.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

The accounting for subsequent changes in fair value depends on whether or not derivatives are designated as in hedge accounting relationships. If hedge accounting is not designated, any changes in their fair value are recognised immediately in the Consolidated Statement of Comprehensive Income.

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Notes to the Financial Reports (continued)

5.4 Financial risk and capital management (continued)

Market risk

a) Foreign exchange risk

Foreign exchange risk arises when recognised assets and liabilities and future commercial transactions are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Groups operate internationally and are exposed to foreign exchange risk mainly arising from currency exposures to the Euro ("EUR") and United States Dollar ("USD").

The Groups do not hedge the foreign exchange exposure on overseas investments.

Financial instruments are converted to Australian Dollars ("AUD") at the rate of exchange ruling at the financial reporting date. Derivative instruments are valued with reference to forward exchange rates from the year end to settlement date, as provided by independent financial institutions.

In assessing foreign exchange risk, management has assumed the following possible movements in the AUD:

- AUD/EUR exchange rate increased/decreased by 6 Euro cents (2017: 8 Euro cents)
- AUD/USD exchange rate increased/decreased by 8 US cents (2017: 10 US cents)
- AUD/GBP exchange rate increased/decreased by 6 UK pence (2017: 8 UK pence)

The below tables display the amounts for financial instruments that would be recognised in profit or loss or directly in equity if the movements in foreign exchange rates as outlined above occur. The Groups' management have determined the above movements in the AUD to be a reasonably possible shift following analysis of foreign exchange volatility for relevant currencies over the last five years.

| | Foreign exchange risk | | | | | | | |
|--|-----------------------------------|-----------------------|--------------------------|--------------------------|-----------------------------------|-----------------------|--------------------------|--------------------------|
| | Appreciation in Australian Dollar | | | | Depreciation in Australian Dollar | | | |
| | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 |
| ALX | | | | | | | | |
| Total financial assets ¹ | (1,185) | (600) | - | - | 1,448 | 779 | - | - |
| Total financial liabilities ² | 89 | 20 | - | - | (112) | (25) | - | - |
| Total | (1,096) | (580) | - | - | 1,336 | 754 | - | - |

| | Foreign exchange risk | | | | | | | |
|--|-----------------------------------|-----------------------|--------------------------|--------------------------|-----------------------------------|-----------------------|--------------------------|--------------------------|
| | Appreciation in Australian Dollar | | | | Depreciation in Australian Dollar | | | |
| | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 |
| ATLAX Group | | | | | | | | |
| Total financial assets ¹ | (21) | (82) | - | - | 27 | 106 | - | - |
| Total financial liabilities ² | 32 | 3 | - | - | (40) | (3) | - | - |
| Total | 11 | (79) | - | - | (13) | 103 | - | - |

1. Financial assets include cash, cash equivalents, restricted cash, receivables and derivative financial instruments.

2. Financial liabilities include payables, debt at amortised cost and derivative financial instruments.

b) Interest rate risk

The Groups have no significant interest bearing assets and liabilities whose fair value is significantly impacted by changes in market interest rates.

In assessing interest rate risk, management has assumed the following movements in the identified interest rates:

- Bank bill swap reference rate (AUD BBSW 90 days) increased/decreased by 34 bps (2017: 39 bps)
- Bank bill swap reference rate (EURIBOR 90 days) increased/decreased by 13 bps (2017: 15 bps)
- Bank bill swap reference rate (USD LIBOR 90 days) increased/decreased by 39 bps (2017: 23 bps)
- Bank bill swap reference rate (GBP LIBOR 90 days) increased/decreased by 19 bps (2017: 12 bps)
- Bank bill swap reference rate (EURIBOR 6 months) increased/decreased by 13 bps (2017: 15 bps)
- Bank bill swap reference rate (AUD BBSW 6 months) increased/decreased by 33 bps (2017: 14 bps)

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Notes to the Financial Reports (continued)

5.4 Financial risk and capital management (continued)

Market risk (continued)

b) Interest rate risk (continued)

The below tables display the amounts for financial instruments that would be recognised in profit or loss or directly in equity if the above interest rate movements occur. The Groups' management have determined the above movements in interest rates to be a reasonably possible shift following analysis of the interest spreads of comparable debt instruments over the past five years.

| | Interest rate risk | | | | | | | |
|-----------------------------|----------------------------|-----------------------|--------------------------|--------------------------|----------------------------|-----------------------|--------------------------|--------------------------|
| | Increase in interest rates | | | | Decrease in interest rates | | | |
| | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 |
| ALX | | | | | | | | |
| Total financial assets | 643 | 139 | - | - | (643) | (139) | - | - |
| Total financial liabilities | (998) | (840) | - | - | 998 | 840 | - | - |
| Total | (355) | (701) | - | - | 355 | 701 | - | - |

| | Interest rate risk | | | | | | | |
|-----------------------------|----------------------------|-----------------------|--------------------------|--------------------------|----------------------------|-----------------------|--------------------------|--------------------------|
| | Increase in interest rates | | | | Decrease in interest rates | | | |
| | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 | P&L 2018 \$'000 | P&L 2017 \$'000 | Equity 2018 \$'000 | Equity 2017 \$'000 |
| ATLAX Group | | | | | | | | |
| Total financial assets | 219 | 309 | - | - | (219) | (309) | - | - |
| Total financial liabilities | - | - | - | - | - | - | - | - |
| Total | 219 | 309 | - | - | (219) | (309) | - | - |

Credit risk

Potential areas of credit risk consist of deposits with banks and financial institutions as well as receivables from associates and governments. The Groups limit their exposure in relation to cash balances by only dealing with well-established financial institutions of high-quality credit standing. With the exception of the transactions between ATLIX and ATLAX, the Groups transact with independently rated parties with appropriate minimum short-term credit ratings. The Boards set exposure limits to financial institutions and these are monitored on an ongoing basis.

Sound credit risk management involves prudently managing the risk and reward relationship and controlling and minimising credit risks across a variety of dimensions, such as quality, concentration, maturity and security.

The below table sets out the counterparties with which the Groups transact and therefore provides an indication of the credit risk exposures.

| | ALX | | | ATLAX Group | | |
|----------------------------------|-------------------------------------|------------------------------------|-----------------|-------------------------------------|------------------------------------|-----------------|
| | Financial institutions \$'000 | Corporates and others \$'000 | Total \$'000 | Financial institutions \$'000 | Corporates and others \$'000 | Total \$'000 |
| 2018 | | | | | | |
| Cash and cash equivalents | 186,468 | - | 186,468 | 12,461 | - | 12,461 |
| Restricted cash | 203,961 | - | 203,961 | - | - | - |
| Receivables – current | - | 1,493 | 1,493 | - | 47,041 | 47,041 |
| Receivables – non-current | - | - | - | - | 8,232 | 8,232 |
| Tax receivables | - | 279 | 279 | - | 279 | 279 |
| Derivative financial instruments | 2,900 | - | 2,900 | - | - | - |
| Total | 393,329 | 1,772 | 395,101 | 12,461 | 55,552 | 68,013 |

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Notes to the Financial Reports (continued)

5.4 Financial risk and capital management (continued)

Credit risk (continued)

| | ALX | | | ATLAX Group | | |
|---------------------------|----------------------------------|---------------------------------|-----------------|----------------------------------|---------------------------------|-----------------|
| | Financial institutions \$'000 | Corporates and others \$'000 | Total \$'000 | Financial institutions \$'000 | Corporates and others \$'000 | Total \$'000 |
| 2017 | | | | | | |
| Cash and cash equivalents | 122,690 | - | 122,690 | 34,304 | - | 34,304 |
| Restricted cash | 153,440 | - | 153,440 | - | - | - |
| Receivables – current | - | 430 | 430 | - | 1,892 | 1,892 |
| Receivables – non-current | - | - | - | - | 122,812 | 122,812 |
| Tax receivables | - | 188 | 188 | - | 188 | 188 |
| Total | 276,130 | 618 | 276,748 | 34,304 | 124,892 | 159,196 |

Financial institutions

The credit risk to financial institutions relates to cash held by and term deposits due from Australian and OECD banks. In line with the credit risk policies of the Groups these counterparties must meet a minimum Standard and Poor's short-term credit rating of A-1 unless an exception is approved by the Boards.

Corporates and others

The ALX and ATLAX Group credit risk relates primarily to receivables from related parties and governments. These counterparties have a range of credit ratings.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Groups have a liquidity management policy which manages liquidity risk by monitoring the stability of funding, surplus cash or highly liquid cash assets, anticipated cash in and outflows and exposure to connected parties.

The below table display the forecast contractual undiscounted future cash outflows of the liabilities at balance date of ALX and the ATLAX Group.

| Financial Liabilities | ALX | | | | | Total \$'000 | ATLAX Group | |
|-------------------------------------|-------------------------------|---------------------|---------------------|---------------------|-----------------------------------|------------------|-------------------------------|-----------------|
| | Less than 1 year \$'000 | 1-2 years \$'000 | 2-3 years \$'000 | 3-5 years \$'000 | Greater than 5 years \$'000 | | Less than 1 year \$'000 | Total \$'000 |
| 2018 | | | | | | | | |
| Debt at amortised cost ¹ | 77,322 | 44,687 | 57,049 | 202,472 | 1,714,065 | 2,095,595 | - | - |
| Payables | 34,859 | - | - | - | 11,571 | 46,430 | 3,398 | 3,398 |
| Derivatives | 3,108 | 2,942 | 2,744 | 4,802 | 3,007 | 16,603 | - | - |
| Total | 115,289 | 47,629 | 59,793 | 207,274 | 1,728,643 | 2,158,628 | 3,398 | 3,398 |
| 2017 | | | | | | | | |
| Debt at amortised cost ¹ | 66,286 | 65,180 | 35,855 | 130,878 | 1,436,439 | 1,734,638 | - | - |
| Payables | 18,638 | - | - | - | 9,754 | 28,392 | 2,039 | 2,039 |
| Total | 84,924 | 65,180 | 35,855 | 130,878 | 1,446,193 | 1,763,030 | 2,039 | 2,039 |

1. Includes consolidated debt held by TRIP II and WQG that is non-recourse to ALX.

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Notes to the Financial Reports (continued)

5.4 Financial risk and capital management (continued)

Fair value measurement of financial instruments

The fair value measurements of financial assets and liabilities are assessed in accordance with the following hierarchy.

- (i) Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- (ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- (iii) Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable valuation input).

ALX has derivative financial instruments that are measured at fair value on a recurring basis. These instruments are entered to minimize potential variations in cash flows resulting from fluctuations in interest rates and their impact on its variable-rate debt. The Company does not enter into derivative instruments for any purpose other than economic interest rate hedging. That is, the Company does not speculate using derivative instruments. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. These instruments are measured at Level 2 hierarchy and are revalued using externally provided dealer quotes.

The Groups' policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers in the current year.

The Groups do not measure any financial assets or financial liabilities at fair value on a non-recurring basis.

Fair values of other financial instruments (unrecognised)

The Groups also have a number of financial instruments which are not measured at fair value in the balance sheet. With the exception to those listed below, the fair values are not materially different to their carrying amounts as: the interest receivable/payable is either close to current market rates; the instruments are short-term in nature; or the instruments have recently been brought onto the balance sheet and therefore the carrying amount approximated the fair value. The fair value of these financial instruments is determined using discounted cash flow analysis. The fair value of all financial assets (excluding Investments accounted for using the equity method) and financial liabilities approximated their carrying amounts at 31 December 2017. There is no debt at amortised cost in the ATLAX Group.

| Debt at amortised cost | Carrying amount \$'000 | Fair value \$'000 |
|---|-----------------------------------|------------------------------|
| Non-recourse TRIP II bonds and accrued interest thereon | 1,429,881 | 1,346,192 |

Capital management

The Groups' capital management objectives are to:

- Ensure sufficient capital resources to support the Groups' business and operational requirements
- Safeguard the Groups' ability to continue as a going concern.

Annual reviews of the Groups' capital requirements are performed to ensure the Groups are meeting their objectives.

Capital is defined as contributed equity plus reserves. The Groups do not have any externally imposed capital requirements at 31 December 2018 or 31 December 2017.

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Notes to the Financial Reports (continued)

6 Group disclosures

6.1 Parent entity financial information

Parent entity financial information

The financial information for ATLIX and ATLAX for this disclosure has been prepared on the same basis as the Financial Reports, except as set out below:

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the separate financial information of ATLIX and ATLAX.

Tax consolidation legislation

ATLAX and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 2 February 2010.

The head entity, ATLAX and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, ATLAX also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate ATLAX for any current tax payable assumed and are compensated by ATLAX for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to ATLAX under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' Financial Reports.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the ATLAX Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Financial guarantees

Where the parent entities have provided financial guarantees in relation to loans and payables of subsidiaries for no consideration, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

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Notes to the Financial Reports (continued)

6.1 Parent entity financial information (continued)

a) Summary financial information

In accordance with the *Corporations Act 2001*, the individual Financial Reports for ATLIX and ATLAX are shown in aggregate amounts below:

| | ATLIX | ATLIX | ATLAX | ATLAX |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 | As at 31 Dec 2018 \$'000 | As at 31 Dec 2017 \$'000 |
| Statement of Financial Position | | | | |
| Current assets | 74,319 | 4,694 | 59,717 | 35,697 |
| Non-current assets | 1,332,757 | 1,429,837 | 83,862 | 197,877 |
| Total assets | 1,407,076 | 1,434,531 | 143,579 | 233,574 |
| Current liabilities | (56,184) | (52,886) | (2,894) | (6,241) |
| Non-current liabilities | (8,232) | (122,812) | - | - |
| Total liabilities | (64,416) | (175,698) | (2,894) | (6,241) |
| Shareholders' equity | | | | |
| Issued capital | 1,995,994 | 1,911,877 | 197,311 | 268,334 |
| Reserves | - | - | 141 | - |
| Retained earnings | (653,334) | (653,044) | (56,767) | (41,001) |
| Total equity | 1,342,660 | 1,258,833 | 140,685 | 227,333 |
| Profit/(loss) for the year | 80,085 | (40,894) | (10,983) | 79,625 |
| Total comprehensive income/(loss) | 80,085 | (40,894) | (10,983) | 79,625 |

b) Guarantees entered into by the parent entities

ATLIX and ATLAX have not directly provided any financial guarantees in respect to bank overdrafts and loans of subsidiaries as at 31 December 2018 and 31 December 2017. ATLIX and ATLAX have not given any unsecured guarantees at 31 December 2018 and 31 December 2017.

However, financial guarantees are held by ETI UK, a subsidiary of ATLIX, in respect of external borrowings held by WQG.

c) Contingent liabilities of the parent entities

Refer note 7.2 for ATLIX and ATLAX's contingent liabilities as at 31 December 2018 and 31 December 2017.

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Notes to the Financial Reports (continued)

6.2 Acquisition of subsidiaries

Business combinations

The acquisition method of accounting is used to account for all business combinations other than those under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Groups. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Contingent consideration is subsequently remeasured to its fair value with changes recognised in the profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Groups' share of the net identifiable assets acquired is recorded as goodwill.

Acquisition of Warnow Tunnel/WQG

On WQG Acquisition Date, ALX acquired the remaining 30% equity interest and shareholder loan in WQG for €3.7 million as gross consideration prior to adjusting for applicable transaction taxes. The acquisition was funded by existing cash.

Pre-acquisition, ALX held 70% interest in WQG and the balance of 30% was held by Bouygues Travaux Publics SA. Per the agreement any decision made with regard to the relevant activities required 75% of the voting members to proceed. As a result, ALX's investment in WQG was treated as a joint venture. Post-acquisition, ALX has a 100% equity interest in WQG. Accordingly, WQG is accounted for as a subsidiary of ALX which is wholly consolidated in the ALX Financial Report.

As per AASB 3 *Business Combinations*, this acquisition is treated as a sale of the existing interest in WQG and subsequent purchase of a 100% interest, giving rise to revaluation of ALX's existing investment in WQG.

The table below reconciles the 1 January 2018 carrying value of Warnow Tunnel with the value of the existing investments at WQG Acquisition Date based on ALX's existing ownership interest

| | ALX | ATLAX Group |
|--|---------------|-------------|
| | \$'000 | \$'000 |
| Opening investments in Warnow Tunnel as at 1 January 2018 – equity method | - | - |
| Share of losses accounted for using equity method up to the WQG Acquisition Date | - | - |
| Foreign exchange movement up to WQG Acquisition Date | - | - |
| Revaluation of existing investment as a result of the acquisition | 13,470 | - |
| Value of existing investment held at WQG Acquisition Date | 13,470 | - |

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | ALX | ATLAX Group |
|------------------------------|--------|-------------|
| | \$'000 | \$'000 |
| Total purchase consideration | 5,975 | - |

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Notes to the Financial Reports (continued)

6.2 Acquisition of subsidiaries (continued)

The fair value of WQG's and its General Partner's identifiable assets acquired and liabilities assumed by the Group on WQG Acquisition Date are as follows:

| | ALX | ALX |
|---|---------------|---------------|
| | €'000 | \$'000 |
| Cash and cash equivalents | 3,616 | 5,840 |
| Restricted cash | 3,111 | 5,024 |
| Other assets | 1,640 | 2,648 |
| Intangible assets – Tolling concessions | 133,003 | 214,772 |
| Property, plant and equipment | 215 | 347 |
| Capital work in progress | 1,770 | 2,858 |
| Debt at amortised cost | (115,117) | (185,889) |
| Deferred tax liabilities | (8,790) | (14,193) |
| Derivative financial instruments | (10,474) | (16,913) |
| Other liabilities | (5,847) | (9,443) |
| Fair value of identifiable assets acquired and liabilities assumed for WQG | 3,127 | 5,051 |
| Goodwill ¹ | 8,790 | 14,193 |
| Net assets acquired | 11,917 | 19,244 |

1. Goodwill arises as a result of the deferred tax liability calculated on concession rights value.

Revenue and profit contribution

WQG contributed revenues of \$5.8 million and a net loss after tax of \$4.0 million to the Group for the period from WQG Acquisition Date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, consolidated pro-forma revenue and net loss after tax for the year would have been \$20.2 million and \$5.4 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- Differences in accounting policies between the Group and the subsidiary; and
- The additional depreciation and amortisation that would have been charged assuming the fair value to property, plant and equipment and concession rights had applied from 1 January 2018, together with the consequential tax effects.

Purchase consideration – cash inflow

| | ALX |
|---|--------------|
| | \$'000 |
| Inflow of cash to acquire subsidiary, net of cash acquired | |
| Cash consideration paid during the year | (3,950) |
| Cash and cash equivalents acquired | 5,840 |
| Net inflow of cash – investing activities | 1,890 |

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Notes to the Financial Reports (continued)

6.3 Subsidiaries

Subsidiaries

Subsidiaries, other than those that ATLIX has been deemed to have directly acquired through stapling arrangements, are those entities over which the Groups are exposed to, or have the right to, variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Groups. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Groups. Where control of an entity is obtained during a financial year, its results are included in the Statement of Comprehensive Income from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed and the subsidiary is deconsolidated from the date that control ceases.

a) ALX

| Name of controlled entity | Country of establishment | 2018 voting % | 2017 voting % |
|--|--------------------------|---------------|---------------|
| Atlas Arteria Limited | Australia | 100.0 | 100.0 |
| ALX Infrastructure US Pty Limited | Australia | 100.0 | 100.0 |
| ALX Infrastructure Australia Pty Limited | Australia | 100.0 | 100.0 |
| ALX Investments (Australia) Pty Limited | Australia | 100.0 | 100.0 |
| Green Bermudian Holdings Limited | Bermuda | 100.0 | 100.0 |
| ALX Investments Limited | Bermuda | 100.0 | 100.0 |
| MIBL Finance (Luxembourg) Sarl | Luxembourg | 100.0 | 100.0 |
| Tollway Holdings Limited | UK | 100.0 | 100.0 |
| European Transport Investments (UK) Limited ("ETI UK") | UK | 100.0 | 100.0 |
| Tipperhurst Limited | UK | 100.0 | 100.0 |
| Greenfinch Motorways Limited | UK | 100.0 | 100.0 |
| MQA 125 Holdings, Inc. ¹ | USA | 100.0 | 100.0 |
| ALX Indiana Holdings LLC | USA | 100.0 | 100.0 |
| ALX Holdings (US) LLC | USA | 100.0 | 100.0 |
| Dulles Greenway Partnership | USA | 100.0 | 100.0 |
| Dulles Greenway Investments 3 (US) LLC | USA | 100.0 | 100.0 |
| Shenandoah Greenway Corporation | USA | 100.0 | 100.0 |
| Toll Road Investors Partnership II, L.P. | USA | 100.0 | 100.0 |
| Warnowquerung GmbH & Co. KG ² | Germany | 100.0 | - |
| Warnowquerung Verwaltungsgesellschaft mbH ² | Germany | 100.0 | - |

1. Filed for dissolution on 7 December 2018.

2. On 20 September 2018, ALX acquired the remaining 30% equity interest in WQG. Prior to this, ALX's investment in WQG was classified as a joint venture.

b) ATLAX Group

| Name of controlled entity | Country of establishment | 2018 voting % | 2017 voting % |
|--|--------------------------|---------------|---------------|
| ALX Infrastructure Australia Pty Limited | Australia | 100.0 | 100.0 |
| ALX Investments Australia Pty Limited | Australia | 100.0 | 100.0 |
| ALX Indiana Holdings LLC | USA | 100.0 | 100.0 |
| ALX Holdings (US) LLC | USA | 100.0 | 100.0 |
| Dulles Greenway Partnership | USA | 100.0 | 100.0 |
| Dulles Greenway Investments 3 (US) LLC | USA | 100.0 | 100.0 |
| Shenandoah Greenway Corporation | USA | 100.0 | 100.0 |

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Notes to the Financial Reports (continued)

6.4 Related party disclosures

Adviser and Manager

The Adviser of ATLIx and the Manager of ATLAX is MFA, a wholly owned subsidiary of Macquarie Group Limited (“MGL”).

Directors

The following persons were directors of ATLIx during the whole of the year and up to the date of this report:

- Jeffrey Conyers (Chairman)
- James Keyes
- Christopher Leslie
- Nora Scheinkestel
- Derek Stapley

The following persons were directors of ATLAX during the whole of the year and up to the date of this report (unless otherwise stated):

- Nora Scheinkestel (Chairman)
- David Bartholomew (Appointed on 1 October 2018)
- Richard England (Resigned on 30 November 2018)
- Debra Goodin
- Jean-Georges Malcor (Appointed on 1 November 2018)
- John Roberts (Resigned on 28 September 2018)

Key Management Personnel

Key Management Personnel (“KMP”) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The directors of ATLIx and ATLAX meet the definition of KMP as they have this authority in relation to the activities of ALX and the ATLAX Group respectively, however they do not manage day-to-day activities of the business.

The compensation paid to directors of ATLIx and ATLAX is determined by reference to directorships of similar entities. The level of compensation is not related to the performance of ALX.

Compensation in the form of directors’ fees that were paid to directors is as follows:

| | Year ended 31 Dec 2018 | | | Year ended 31 Dec 2017 | | |
|---------------------|-------------------------------|----------------------|--------------------------------|-------------------------------|----------------------|--------------------------------|
| | Cash salary and fees \$ | Superannuation \$ | Total directors’ fees \$ | Cash salary and fees \$ | Superannuation \$ | Total directors’ fees \$ |
| ATLIx | | | | | | |
| Jeffrey Conyers | 161,478 | - | 161,478 | 159,234 | - | 159,234 |
| James Keyes | 114,380 | - | 114,380 | 120,258 | - | 120,258 |
| Christopher Leslie | 114,380 | - | 114,380 | 36,720 | - | 36,720 |
| Nora Scheinkestel | 83,750 | - | 83,750 | 86,250 | - | 86,250 |
| Derek Stapley | 124,473 | - | 124,473 | 133,256 | - | 133,256 |
| | 598,461 | - | 598,461 | 535,718 | - | 535,718 |
| ATLAX | | | | | | |
| Nora Scheinkestel | 189,710 | 20,290 | 210,000 | 208,606 | 19,832 | 228,438 |
| David Bartholomew | 32,380 | 3,037 | 35,417 | - | - | - |
| Richard England | 136,826 | 14,424 | 151,250 | 180,060 | 15,681 | 195,741 |
| Debra Goodin | 162,864 | 15,261 | 178,125 | 75,914 | 4,837 | 80,751 |
| Jean-Georges Malcor | 24,583 | - | 24,583 | - | - | - |
| John Roberts | 105,000 | - | 105,000 | 142,083 | - | 142,083 |
| Marc de Cure | - | - | - | 71,918 | 6,832 | 78,750 |
| | 651,363 | 53,012 | 704,375 | 678,581 | 47,182 | 725,763 |

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Notes to the Financial Reports (continued)

6.4 Related party disclosures (continued)

Key Management Personnel (continued)

The number of ALX stapled securities held directly, indirectly or beneficially by the KMP at 31 December is set out below:

| | Directors' interests in ALX stapled securities At 31 Dec 2018 | Directors' interests in ALX stapled securities At 31 Dec 2017 |
|----------------------------------|---|---|
| Jeffrey Conyers | 40,000 | 40,000 |
| David Bartholomew ¹ | - | - |
| Richard England ² | - | 49,670 |
| Debra Goodin | 5,671 | 5,671 |
| James Keyes | 5,000 | 5,000 |
| Christopher Leslie | - | - |
| Jean-Georges Malcor ³ | - | - |
| John Roberts ⁴ | - | 53,073 |
| Nora Scheinkestel | 78,431 | 78,431 |
| Derek Stapley | 5,000 | - |
| Total | 134,102 | 231,845 |

1. Appointed 1 October 2018.
2. Resigned 30 November 2018.
3. Appointed 1 November 2018.
4. Resigned 28 September 2018.

Adviser and Manager fees

Under the terms of the governing documents of the individual entities within the Groups, fees incurred (inclusive of non-recoverable GST) to the Adviser/Manager of ALX and the ATLAX Group were:

| | ALX Year ended 31 Dec 2018 \$ | ALX Year ended 31 Dec 2017 \$ | ATLAX Group Year ended 31 Dec 2018 \$ | ATLAX Group Year ended 31 Dec 2017 \$ |
|---------------------|--|--|--|--|
| Base fee (a) | 36,758,504 | 32,812,601 | 2,235,911 | 2,625,042 |
| Performance fee (b) | 70,625,097 | 7,978,730 | 4,983,932 | 639,491 |
| Total | 107,383,601 | 40,791,331 | 7,219,843 | 3,264,533 |

a) Base fee

As a part of the terms of internalised management agreements, MFA will remain as the adviser/manager of ALX under the current management arrangements until 15 May 2019 (unless terminated earlier although fees will continue to be paid until that date). During this period, base management fees will be paid to MFA at the current rate of 0.85% per annum on ALX's market capitalisation (excluding any shares issued after 30 June 2018).

b) Performance fee

The performance fee is calculated with reference to the performance of the ALX accumulated index compared with the performance of the S&P/ASX 300 Industrials Accumulation Index. For the 12 months ended 30 June 2018, a total performance fee of \$54.7 million (excluding GST) was calculated for ALX. In accordance with, and due to the renegotiation of, the management agreements, the full 2018 performance fee became payable at 30 June 2018. Accordingly, the full 2018 performance fee has been recognised as at 30 June 2018. For the period ended 30 June 2017, a performance fee for \$8.0 million (excluding GST) was expensed.

The full 2018 performance fee of 54.7 million (excluding GST), the second and third instalment of the 2017 performance fee totalling \$15.9 million (excluding GST) and the third instalment of the 2016 performance fee of \$44.7 million (excluding GST) became payable at 30 June 2018 out of which \$90.3 million were applied to a subscription for new ALX securities in July 2018 and \$25.0 million was settled in cash.

Fees are apportioned between ATLIX and ATLAX based on each entity's share of the net assets of ALX.

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Notes to the Financial Reports (continued)

6.4 Related party disclosures (continued)

Other balances and transactions

MGL and companies within the MGL Group undertake various transactions with and perform various services for ALX. Fees paid to the MGL Group are approved solely by the independent directors on the Boards and, where appropriate, external advice is sought by the directors to ensure that the fees and terms of engagement are representative of arm's length transactions.

In July 2018, MGL sold all of the 13,476,174 stapled securities held in ALX which were acquired by MGL on settlement of performance fee.

ALX utilises services provided by Macquarie Bank Limited ("MBL"), a wholly owned subsidiary of MGL. MBL's foreign exchange and treasury departments provide services from time to time on arm's length terms.

At 31 December 2018, entities within the Groups had the following balances with related parties:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2018 | As at 31 Dec 2017 | As at 31 Dec 2018 | As at 31 Dec 2017 |
| | \$ | \$ | \$ | \$ |
| Cash held with MBL ¹ | 85,815,683 | 37,990,680 | 12,317,726 | 34,172,171 |
| Interest bearing loan receivable from ATLIX ² | | | | |
| Current ³ | - | - | 46,179,915 | 1,893,879 |
| Non-current | - | - | 8,232,108 | 122,812,094 |
| Other intercompany receivables from/(payables to) ATLIX | - | - | 329,842 | (1,604) |

1. Macquarie Bank Limited ("MBL"), a wholly owned subsidiary of MGL.

2. Tranches of the loan owing from ATLIX to ATLAX bear interest at 6-month BBSW plus a margin of 0.9% - 1.1%.

3. Includes accrued interest of \$778,623 (2017: \$1,893,879).

During the year, entities within the Groups had the following transactions with related parties:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | \$ | \$ | \$ | \$ |
| Interest earned on deposits with MBL | 876,577 | 1,564,302 | 396,181 | 1,130,495 |
| Interest between ATLAX and ATLIX on loan amount | - | - | 3,465,711 | 1,893,879 |
| Reimbursement of expenses paid by companies within the MGL Group on behalf of ALX | 1,215,254 | 919,572 | 795,626 | 685,012 |
| Reimbursement of ATLIX's portion of expenses paid by ATLAX on behalf of ALX | - | - | 1,677,700 | - |
| Guarantee fee income from ATLIX Group | - | - | - | 1,185,466 |
| Fees paid to Macquarie Capital (Australia) Limited ¹ | - | 9,468,959 | - | 762,976 |

1. Fees paid to Macquarie Capital (Australia) Limited in 2017 relate to capital raisings undertaken as part the acquisition of additional interests in APRR and TRIP II.

During the year, entities within the Groups received the following from associates:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | \$ | \$ | \$ | \$ |
| Principal and interest received from preferred equity certificates issued by MAF2 | 249,416,735 | 147,779,372 | - | - |
| M6 Toll management fee | - | 5,154,626 | - | - |
| Adviser's fee from WQG | 135,420 | 28,224 | - | - |

All of the amounts represent payments on normal commercial terms made in relation to the provision of goods and services.

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Notes to the Financial Reports (continued)

7 Other disclosures

7.1 Cash flow information

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|---------------------------|---------------------------|-------------------------|-------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 18 | Year ended 31 Dec 17 |
| | \$'000 | \$'000 | \$'000 | \$,000 |
| Reconciliation of profit after income tax to the net cash flows from operating activities | | | | |
| Profit/(loss) from activities after income tax | 59,852 | 519,583 | (16,831) | 57,383 |
| (Gain)/loss on equity accounted assets | (246,141) | (187,971) | 4,801 | 626 |
| Net foreign exchange differences | 3,483 | (14,119) | (63) | (2,247) |
| Finance costs | 108,920 | 53,795 | - | - |
| Depreciation and amortisation | 350 | 152 | 39 | - |
| Amortisation of tolling concession | 61,768 | 36,520 | - | - |
| Amortisation of deferred tax liabilities | (1,220) | (18,448) | - | - |
| Gain on revaluation of investment | (13,470) | (375,615) | - | (61,710) |
| Bad debt written off | 6 | - | - | - |
| Current tax expense/(benefit) | 2,118 | 1,699 | (1) | 1,664 |
| Guarantee fee classified as investing cash flows | - | - | - | (1,185) |
| Issue of securities against performance fees payable | 90,303 | 52,640 | 6,186 | 4,950 |
| Changes in operating assets and liabilities | | | | |
| (Increase)/decrease in receivables | (4,855) | 15 | (457) | (1,675) |
| (Decrease) in payables and provisions | (37,974) | (50,131) | (2,364) | (11,654) |
| Net cash flows from operating activities | 23,140 | 18,120 | (8,690) | (13,848) |

Non-cash financing and investing activities

Refer note 5.2 for further details on application of performance fees to subscription of new securities.

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--------------------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 18 | Year ended 31 Dec 17 |
| | \$'000 | \$'000 | \$'000 | \$,000 |
| Net debt | | | | |
| Cash and cash equivalents | 186,468 | 122,690 | 12,461 | 34,304 |
| Borrowings – current | (77,322) | (66,286) | - | - |
| Borrowings – non-current | (2,101,962) | (1,668,352) | - | - |
| Net debt | (1,992,816) | (1,611,948) | 12,461 | 34,304 |
| Reconciliation of net debt | | | | |
| Cash and cash equivalents | 186,468 | 122,690 | 12,461 | 34,304 |
| Gross debt – fixed interest rates | (1,429,881) | (1,287,564) | - | - |
| Gross debt – variable interest rates | (749,403) | (447,074) | - | - |
| Net debt | (1,992,816) | (1,611,948) | 12,461 | 34,304 |

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Notes to the Financial Reports (continued)

7.1 Cash flow information (continued)

| ALX | Assets | Liabilities from financing activities | | Total \$'000 |
|---|---------------------------------------|---------------------------------------|-------------------------------------|--------------------|
| | Cash and cash equivalent \$'000 | Borrowings current \$'000 | Borrowings non-current \$'000 | |
| Net debt at 1 January 2017 | 223,367 | - | - | 223,367 |
| Cash flows | (104,453) | 9,117 | (450,530) | (545,866) |
| Loan facilities | - | (67,449) | (1,243,113) | (1,310,562) |
| Other non-cash adjustments ¹ | - | (10,675) | (43,120) | (53,795) |
| Foreign exchange adjustments | 3,776 | 2,721 | 68,411 | 74,908 |
| Net debt at 31 December 2017 | 122,690 | (66,286) | (1,668,352) | (1,611,948) |
| Cash flows | 59,327 | 21,081 | 54 | 80,462 |
| Loan facilities | - | (9,068) | (176,821) | (185,889) |
| Other non-cash adjustments ¹ | - | (19,136) | (89,784) | (108,920) |
| Foreign exchange adjustments | 4,451 | (3,913) | (167,059) | (166,521) |
| Net debt at 31 December 2018 | 186,468 | (77,322) | (2,101,962) | (1,992,816) |

1. Relates to unpaid interest that has accrued during the period.

| ATLAX Group | Cash and cash equivalent \$'000 | Total \$'000 |
|-------------------------------------|---------------------------------------|-----------------|
| Net debt at 1 January 2017 | 204,129 | 204,129 |
| Cash flows | (165,628) | (165,628) |
| Foreign exchange adjustments | (4,197) | (4,197) |
| Net debt at 31 December 2017 | 34,304 | 34,304 |
| Cash flows | (22,051) | (22,051) |
| Foreign exchange adjustments | 208 | 208 |
| Net debt at 31 December 2018 | 12,461 | 12,461 |

7.2 Contingent liabilities

ALX had the following contingent liabilities at 31 December 2018. No provision has been raised against these items unless stated below.

Warnow Tunnel

ETIUK, a subsidiary of ATLIX, has made guarantees, totalling €2.0 million (\$3.2 million) (31 December 2017: €1.2 million (\$1.8 million)), in the event of a senior debt payment event of default by Warnowquerung GmbH & Co KG.

This contingent commitment is backed by an on-demand guarantee, provided through a pledged cash account into which €2.0 million (\$3.2 million) (31 December 2017: €1.2 million (\$1.8 million)) has been deposited. These funds are restricted and are classified as restricted cash on the Consolidated Statements of Financial Position.

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Notes to the Financial Reports (continued)

7.3 Remuneration of auditors

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | \$ | \$ | \$ | \$ |
| Amounts paid or payable to PricewaterhouseCoopers Australia for: | | | | |
| Audit services | 479,130 | 364,743 | 239,565 | 186,110 |
| Taxation services | - | 14,240 | - | - |
| Other assurance services | 60,680 | 261,918 | 30,340 | 25,904 |
| | 539,810 | 640,901 | 269,905 | 212,014 |
| Amounts paid or payable to network firms of PricewaterhouseCoopers for: | | | | |
| Audit services | 314,211 | 239,416 | 32,745 | 41,927 |
| Taxation services | 155,974 | 29,757 | - | - |
| Other services | - | 4,830 | - | - |
| | 470,185 | 274,003 | 32,745 | 41,927 |
| Amounts paid or payable to non PricewaterhouseCoopers audit firms for: | | | | |
| Audit services | 64,866 | - | - | - |
| | 64,866 | - | - | - |

7.4 Share based payments

LTI Plan

The LTI Plan is designed to provide long-term incentives to key employees to deliver long-term securityholder returns. Under the plan, participants are granted performance rights which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to receive any guaranteed benefits.

The amount of performance rights that will vest depends on Groups' relative Total Shareholder return (TSR) against the TSR performance of a peer group of companies approved by the Board. Performance rights are granted under the plan for no consideration and carry equal voting rights with other Securityholders. These performance rights are exercisable at no consideration.

Set out below are summaries of performance rights granted under the plan:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|---------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | Number of performance rights | Number of performance rights | Number of performance rights | Number of performance rights |
| As at 1 January | - | - | - | - |
| Granted during the year | 237,765 | - | 237,765 | - |
| Exercised during the year | - | - | - | - |
| Forfeited during the year | - | - | - | - |
| As at 31 December | 237,765 | - | 237,765 | - |

All share performance rights outstanding at the end of the year will vest on 28 February 2021 only if performance conditions are met.

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Notes to the Financial Reports (continued)

7.4 Share based payments (continued)

a) Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 31 December 2018 ranged from \$3.57 to \$4.21 per performance right (2017 – nil). The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the performance right, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the performance right and the correlations and volatilities of the peer group companies.

The model inputs for performance rights granted during the year ended 31 December 2018 included:

- (i) Performance rights are granted for no consideration and vest based on Groups' TSR ranking within a peer group of selected companies over vesting period. Vested performance rights are exercisable immediately after vesting
- (ii) Grant date: Between 1 May 2018 and 28 December 2018
- (iii) Expiry date: 28 February 2021
- (iv) Expected price volatility of the ALX stapled securities: 24%
- (v) Expected dividend yield: 4.1%
- (vi) Risk-free interest rate: Between 1.88% and 2.16%

The expected price volatility is based on the historic volatility (based on the remaining life of the performance rights), adjusted for any expected changes to future volatility due to publicly available information.

b) Expenses arising from share-based payment transactions

| | ALX | ALX | ATLAX Group | ATLAX Group |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Employee performance rights | 141 | - | 141 | - |
| | 141 | - | 141 | - |

7.5 Other accounting policies

This note provides a list of the significant accounting policies adopted in preparation of these Financial Reports to the extent they have not already been disclosed in the other notes above.

a) Transaction costs

Transaction costs related to a business combination are recognised in the profit or loss. Transaction costs arising on the issue of equity instruments are recognised directly in equity and those arising on borrowings are netted with the liability and included in interest expense using the effective interest method.

b) GST

The amount of GST incurred by the Groups that is not recoverable from the Australian Taxation Office ("ATO") is recognised as an expense or as part of the cost of acquisition of an asset or adjusted from the proceeds of securities issued. These expenses have been recognised in profit or loss net of the amount of GST recoverable from the ATO. Receivables and payables are stated at amounts inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Consolidated Statement of Financial Position. Cash flows relating to GST are included in the Consolidated Statements of Cash Flows on a gross basis.

c) Foreign currency translation

Functional and presentation currency

Items included in the Financial Reports of each of the Groups' entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Financial Reports are presented in Australian Dollars, which is the functional and presentation currency of ATLIX and ATLAX.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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Notes to the Financial Reports (continued)

7.5 Other accounting policies (continued)

Group companies

The results and financial position of the Groups' entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position
- Income and expenses for each Statement of Comprehensive Income are translated at exchange rates at the dates of transactions or at an average rate as appropriate
- All resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to security holders' equity. When a foreign operation is disposed of or borrowings that form part of the net investment are repaid, a proportionate share of such exchange differences are recognised in profit or loss as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

d) Offsetting financial instruments

Financial assets and financial liabilities may be offset and the net amount reported on the Statement of Financial Position when there is a legally enforceable right to offset the amounts and either there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

e) Change in accounting policy – AASB 9 Financial Instruments

Impact of Changes

The Groups have adopted AASB 9 from 1 January 2018 which have resulted in changes to accounting policies and the analysis for possible adjustments to amounts recognised in the Financial Reports. In accordance with the transitional provisions in AASB 9, the reclassifications and adjustments are not reflected in the balance sheet as at 31 December 2017 but recognised in the opening balance sheet as at 1 January 2018. As per the new impairment model introduced by AASB 9, ATLAX Group has recognised a loss allowance of \$0.3 million on the intercompany loan receivable owing to ATLAX from ATLI as at 1 January 2018.

(i) Classification and Measurement

On 1 January 2018, the Groups have assessed which business models apply to the financial instruments held by the Groups and have classified them into the appropriate AASB 9 categories. The main effects resulting from this reclassification are shown in the table below.

On adoption of AASB 9, the Groups classified financial assets and liabilities as subsequently measured at either amortised cost or fair value through profit or loss, depending on the business model for those assets and on the asset's contractual cash flow characteristics. There were no changes in the measurement of the Groups' financial instruments.

There was no impact on the statement of comprehensive income or the statement of changes in equity on adoption of AASB 9 in relation to classification and measurement of financial assets and financial liabilities.

The following table summarises the impact on the classification and measurement of the Groups' financial instruments at 1 January 2018:

| Presented in statement of financial position | Financial asset | AASB 139 | AASB 9 | Reported \$'000 | Restated \$'000 |
|--|-----------------------|-----------------------|----------------|-----------------|-----------------|
| Cash and cash equivalents | Bank deposits | Loans and receivables | Amortised cost | No change | No change |
| Restricted cash | Bank deposits | Loans and receivables | Amortised cost | No change | No change |
| Receivables from related parties | Loans and receivables | Loans and receivables | Amortised cost | No change | No change |
| Trade and other receivables/payables | Loans and receivables | Loans and receivables | Amortised cost | No change | No change |

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Notes to the Financial Reports (continued)

7.5 Other accounting policies (continued)

e) Change in accounting policy – AASB 9 Financial Instruments (continued)

(ii) Changes to Hedge Accounting

ALX does not currently enter into any hedge accounting and therefore there is no impact to the Groups' Financial Reports.

(iii) Impairment

AASB 9 introduces a new expected credit loss ("ECL") impairment model that requires the Groups to adopt an ECL position across the Groups' financial assets at 1 January 2018. The Groups have performed a detailed assessment of its receivable balances which materially consist only of an intercompany loan owing to ATLAX from ATLIX. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Groups use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Groups' past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Applying the expected credit risk model on the intercompany loan receivable in the ATLAX Group at 1 January 2018 resulted in the recognition of a loss allowance of \$0.3 million through opening retained earnings. This provision was reassessed at 31 December 2018 and will be reassessed at each reporting date.

f) Accounting standards and interpretations issued

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting year. The Groups' assessment of the impact of the relevant new standards and interpretations which have not been early adopted in preparing the Financial Reports is set out below.

AASB 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)

AASB 16 *Leases* will replace AASB 117 *Leases*. It requires the recognition of a right-of-use asset along with an associated lease liability, where the entity is a lessee. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. The standard is effective for annual reporting periods beginning on or after 1 January 2019.

The Groups have assessed the new standard's impact on the Groups' Financial Reports and anticipate that the most significant impact will arise on the TRIP II easement and the ALX head office lease. The Groups are still finalising their assessment which is subject to change, however a summary of the anticipated impact on the Financial Reports for the year ended 31 December 2019 is shown below:

| | ALX | ALX | ATLAX Group | ATLAX Group |
|--|-------------------|--------------------|-------------------|--------------------|
| | AASB 16 \$'000 | AASB 117 \$'000 | AASB 16 \$'000 | AASB 117 \$'000 |
| Balance sheet at 1 January 2019 | | | | |
| Non-current assets | | | | |
| Right of use asset – TRIP II easement | 4,380 | - | - | - |
| Right of use asset – ALX head office lease | 2,026 | - | 2,026 | - |
| Non-current liabilities | | | | |
| Deferred liability – TRIP II easement | - | (15,130) | - | - |
| Lease liability – TRIP II easement | (18,129) | - | - | - |
| Lease liability – ALX head office lease | (2,067) | - | (2,067) | - |
| Equity | | | | |
| Retained earnings – TRIP II easement | 13,750 | (15,130) | - | - |
| Retained earnings – ALX head office lease | 41 | - | 41 | - |
| Income statement | | | | |
| Operating expenses – TRIP II easement | - | (600) | - | - |
| Depreciation – TRIP II easement | (81) | - | - | - |
| Finance costs – TRIP II easement | (904) | - | - | - |
| Operating expenses – ALX head office lease | - | (172) | - | (172) |
| Depreciation – ALX head office lease | (186) | - | (186) | - |
| Finance costs – ALX head office lease | (37) | - | (37) | - |

Atlas Arteria International Limited
Atlas Arteria Limited

Notes to the Financial Reports (continued)

7.5 Other accounting policies (continued)

f) Accounting standards and interpretations issued (continued)

AASB 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019) (continued)

| | ALX AASB 16 \$'000 | ALX AASB 117 \$'000 | ATLAX Group AASB 16 \$'000 | ATLAX Group AASB 117 \$'000 |
|--|--------------------------|---------------------------|----------------------------------|-----------------------------------|
| Cashflow Statement | | | | |
| Operating cash flows – TRIP II easement | - | (600) | - | - |
| Financing cash flows – TRIP II easement | (600) | - | - | - |
| Operating cash flows – ALX head office lease | - | (172) | - | (172) |
| Financing cash flows – ALX head office lease | (172) | - | (172) | - |

There are additionally a number of small operating leases where an asset (the right to use the leased item) and a financial liability to pay rentals will be recognised. For these leases, the application of AASB 16 is not expected to have a material impact on the Groups' Financial Reports.

Upon adoption of AASB 16, assets and liabilities arising from a lease will be initially measured at their net present value. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the estimated incremental borrowing rates specific to the entity that has entered into the lease.

The Groups' leases are materially all denominated in foreign currencies, and as such the numbers forecast are subject to change based on FX rates applicable when AASB 16 comes into effect.

The Groups will apply the standard from its mandatory adoption date of 1 January 2019, right-of-use assets for leases will be measured on transition as if the new rules had always been applied. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Revised IFRS Conceptual Framework

The IASB has issued the revised IFRS Conceptual Framework ("Framework") for financial reporting. The main purpose of the Framework is to assist the IASB in developing accounting standards and assist financial report preparers to develop accounting policies when there is no specific or similar standard that addresses a particular issue.

Amendments made include the definition and recognition criteria for assets, liabilities, income and expenses, and other relevant financial reporting concepts. The Framework is effective for annual periods beginning on or after 1 January 2020. The Groups are currently assessing the impact of the Framework and timing of adoption. The Australian equivalent Conceptual Framework has not yet been amended.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

7.6 Events occurring after balance sheet date

Since the balance sheet date, there have been no other matters or circumstances not otherwise dealt with in the Financial Reports that have significantly affected or may significantly affect the operations of the Groups, the result of those operations or the state of affairs of the Groups in the period subsequent to the year ended 31 December 2018.

Atlas Arteria International Limited
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Directors' Declaration – Atlas Arteria International Limited

The directors of Atlas Arteria International Limited ("ATLIX") declare that:

- a) the Financial Report of ATLIX and its controlled entities ("ALX") and notes set out on pages 31 to 77:
 - i) comply with Australian Accounting Standards and other mandatory professional reporting requirements; and
 - ii) give a true and fair view of the financial position of the ALX as at 31 December 2018 and of its performance for the year ended on that date; and
- b) there are reasonable grounds to believe that ATLIX will be able to pay its debts as and when they become due and payable.

The directors confirm that the Financial Report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Jeffrey Conyers

Chairman

Atlas Arteria International Limited

Pembroke, Bermuda

27 February 2019



Derek Stapley

Director

Atlas Arteria International Limited

Pembroke, Bermuda

27 February 2019

Atlas Arteria International Limited
Atlas Arteria Limited

Directors' Declaration – Atlas Arteria Limited

The directors of Atlas Arteria Limited ("ATLAX") declare that:

- a) the Financial Report of ATLAX and its controlled entities ("ATLAX Group") and notes set out on pages 31 to 77 are in accordance with the constitution of ATLAX and the *Corporations Act 2001*, including:
 - i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - ii) giving a true and fair view of the financial position of the ATLAX Group as at 31 December 2018 and of its performance for the year ended as on that date; and
- b) there are reasonable grounds to believe that ATLAX will be able to pay its debts as and when they become due and payable.

The directors confirm that the Financial Report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Nora Scheinkestel
Chairman
Atlas Arteria Limited
Sydney, Australia
28 February 2019



Debra Goodin
Director
Atlas Arteria Limited
Sydney, Australia
28 February 2019

Atlas Arteria International Limited
Atlas Arteria Limited



Independent auditor's report

To the stapled security holders of Atlas Arteria International Limited (formerly Macquarie Atlas Roads International Limited) and Atlas Arteria Limited (formerly Macquarie Atlas Roads Limited)

Report on the audits of the financial reports

Our opinion

In our opinion:

The accompanying financial reports of Atlas Arteria ("ALX or "Group") (formerly Macquarie Atlas Roads), being the consolidated stapled group which comprises Atlas Arteria International Limited ("ATLIX") and its controlled entities and Atlas Arteria Limited ("ATLAX") and its controlled entities, and the Atlas Arteria Limited Group ("ATLAX Group") which comprises ATLAX and its controlled entities, are in accordance with the *Corporations Act 2001* (as applicable), including:

- (a) giving a true and fair view of the financial positions of ALX and ATLAX Group as at 31 December 2018 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (as applicable).

What we have audited

The financial reports of ALX and ATLAX Group (the "financial reports") comprise:

- the consolidated statements of financial position as at 31 December 2018
- the consolidated statements of comprehensive income for the year then ended
- the consolidated statements of changes in equity for the year then ended
- the consolidated statements of cash flows for the year then ended
- the notes to the financial reports, which include a summary of significant accounting policies
- the directors' declarations.

Basis for opinion

We conducted our audits in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the financial reports* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of ALX and ATLAX Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the financial reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audits to ensure that we performed enough work to be able to give an opinion on the financial reports as a whole, taking into account the geographic and management structure of ALX and ATLAX Group (together, "Groups"), their accounting processes and controls and the industry in which they operate.

ALX invests in an international portfolio of toll road assets, the most significant of which are Autoroutes Paris-Rhin-Rhone ("APRR") in France and Dulles Greenway ("DG") in the United States of America. We engaged with the auditors of APRR and Toll Road Investors Partnership II, L.P. ("TRIP II"), the concessionaire for DG, to report to us in respect of their audit procedures performed on these entities.



| Materiality | Audit scope | Key audit matters |
|--|--|---|
| <ul style="list-style-type: none"> ALX materiality was \$18.2 million, which represents approximately 2.5% of its segment EBITDA. ATLAX Group materiality was \$2.3 million, which represents approximately 1% of its total assets. We applied these thresholds, together with qualitative considerations, to determine the scope of our audits and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial reports as a whole. As the operating activities of both DG and Warnowquerung GmbH & Co., KG, the concessionaire of Warnow Tunnel ("Warnow Tunnel") are reflected in ALX's financial report, using segment EBITDA as a benchmark reflects the operating activities of ALX. We continued to use total assets for ATLAX Group because, in our view, it remains the primary metric against which its performance is most commonly measured. It presents its holding as an investment, which is net of associated debt held at the level of the underlying asset. We utilised a 2.5% threshold for ALX and a 1% threshold for ATLAX Group based on our professional judgement, noting that both are within the range of commonly acceptable thresholds. | <ul style="list-style-type: none"> Our audits focused on where the Groups made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. We decided the nature, timing and extent of work that needed to be performed by other auditors operating under our instruction ("component auditors"). For APRR, DG and Warnow Tunnel, we determined the level of involvement we needed to have in the audit work performed by the component auditors to enable us to conclude whether sufficient appropriate audit evidence had been obtained. Our involvement included discussions, written instructions and reviewing a selection of their workpapers. | <ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committees: <ul style="list-style-type: none"> Value of the DG concession and goodwill for ALX and value of the equity accounted investment in DG for ATLAX Group Consolidation of subsidiaries and equity accounting of associates. They are further described in the <i>Key audit matters</i> section of our report. |



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audits of the financial reports for the current period. The key audit matters were addressed in the context of our audits of the financial reports as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committees.

Key audit matter of ALX and ATLAX Group

Value of the DG Concession and goodwill for ALX and value of the equity accounted investment in DG for ATLAX Group

(Refer to note 4.1, note 4.2 and note 3.2)

The value of the DG Concession for ALX is \$2.4 billion of the total tolling concession balance disclosed in note 4.1 (\$2.6 billion). ALX Goodwill relating to DG amounts to \$65 million of the \$79 million balance disclosed in note 4.2. The value of the equity accounted investment in DG for ATLAX Group is \$165 million as disclosed in note 3.2.

The carrying value of ALX goodwill has to be tested annually for impairment by the Directors. At each reporting period, the DG Concession and goodwill for ALX, and the value of the equity accounted investment in DG for ATLAX Group, need to be assessed for indicators of impairment. If indicators of impairment exist, the recoverable amount for each asset needs to be estimated. These assessments involve significant judgements in estimating future cash flows and the rate at which they are discounted.

For ALX, the test for impairment focuses on the DG Concession and goodwill. For ATLAX Group, it is the equity accounted investment in DG that is assessed for impairment.

The assessment of the carrying value of the DG Concession and goodwill for ALX and the equity accounted investment in DG for ATLAX Group was a key audit matter due to the judgement involved in developing the discounted cashflow model used in determining the recoverable amounts.

How our audits addressed the key audit matter

We evaluated the Groups' assessments by comparing their analysis to our knowledge of DG and the environment in which it operates. Our understanding was informed by enquiries of DG's auditors and review of publicly available information regarding the road network and the macroeconomic environment of the region.

We evaluated the Groups' discounted cashflow model used to estimate the recoverable amount of the DG Concession and goodwill for ALX and the equity accounted investment in DG for ATLAX Group, and the process by which it was developed. Our procedures included:

- evaluating the discount rate applied to cashflow forecasts by using our valuation experts to develop an independent range. This range was determined with reference to externally derived data where possible, including market expectations of investment return, projected economic growth, interest rates, valuations of comparable assets and asset specific characteristics
- comparing previous cashflow forecasts to actual results to assess the ability of the Groups to forecast accurately and to incorporate actual results into future cashflow forecasts
- applying sensitivity analysis to key assumptions, in particular the discount rate, toll escalation rates and traffic forecasts
- sample testing the mathematical accuracy of the Groups' discounted cashflow model which was used to determine the recoverable amount of the DG Concession and goodwill for ALX and the equity accounted investment in DG for ATLAX Group.

The impairment assessment remains highly sensitive to a number of assumptions, in particular to changes in the discount rate and achievement of traffic forecasts and toll escalation rates. Accordingly, we assessed the relevant disclosures which have been made in note 4.2.

Atlas Arteria International Limited
Atlas Arteria Limited



Key audit matter of ALX and ATLAX Group

How our audits addressed the key audit matter

Consolidation of subsidiaries and equity accounting for associates

(Refer to note 3.2)

ALX applies equity accounting to its investment in APRR and consolidates its investments in DG and Warnow Tunnel. ATLAX Group applies equity accounting to its investment in DG. In doing so, they are required to make a number of adjustments to the underlying financial information to ensure alignment to Australian Accounting Standards and to the Groups' accounting policies.

This was a key audit matter because certain adjustments are material and technical in nature such as adjusting the results of international subsidiaries and investments in associates prepared using local accounting policies to reflect Australian Accounting Standards.

Through interaction with the Groups and the APRR, DG and Warnow Tunnel audit teams, we developed an understanding of operational developments and local accounting policies of the subsidiaries and associates and the nature and extent of any accounting standard or accounting policy adjustments required to align with those of the Groups. We sample tested that the adjustments made by the Groups were consistent with this understanding.

Upon receipt of the audited balance sheet and income statement for DG, we re-performed management's calculation of adjustments impacting ALX's consolidated statement of comprehensive income and consolidated statement of financial position and re-performed management's calculation of adjustments impacting ATLAX Group's share of net profits or losses and carrying value of DG and compared to those calculated by the Groups.

Upon receipt of the audited balance sheet and income statement for APRR, we re-performed management's calculation of adjustments impacting ALX's share of net profits or losses and carrying value of APRR and compared to those calculated by the Groups.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial reports and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Reports. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial reports does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audits of the financial reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial reports

The directors of ATLIX and ATLAX are responsible for the preparation of the financial reports that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* (as applicable) and for such internal control as the directors determine is necessary to enable the preparation of the financial reports that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors are responsible for assessing the ability of the Groups to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Groups or to cease operations, or have no realistic alternative but to do so.

Atlas Arteria International Limited
Atlas Arteria Limited



Auditor's responsibilities for the audits of the financial reports

Our objectives are to obtain reasonable assurance about whether the financial reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial reports.

A further description of our responsibilities for the audits of the financial reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited ATLIX and ATLAX's remuneration report included in pages 11 to 27 of the directors' reports for the year ended 31 December 2018.

In our opinion, the remuneration report of ATLIX and ATLAX for the year ended 31 December 2018 comply with section 300A of the *Corporations Act 2001* (as applicable).

Responsibilities

The directors of ATLIX and ATLAX are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (as applicable). Our responsibility is to express an opinion on the remuneration report, based on our audits conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

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A handwritten signature in black ink, appearing to read 'SJ Smith'.

SJ Smith
Partner

Sydney
28 February 2019