Remuneration Report (audited)

Under the Corporations Act it is only Australian listed companies that are required to prepare a remuneration report. Accordingly, only MARL securityholders participate in a non-binding vote in respect of this report. Detail on MARIL and MQA as a whole has been included below for good corporate governance.

At the 2017 AGM, MARL received a 24.13% vote against the Remuneration Report. On 20 November 2017, MQA announced that it had reached a stage where a transition to internalisation of the management of MQA is now appropriate and MARL and MARIL directors believe that the internalisation will address many of the concerns underlying the 2017 vote.

The information provided in this report includes remuneration disclosures that are required under AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the Financial Reports and have been audited.

The information provided in this Remuneration Report has been audited as required by section 308 (3c) of the *Corporations Act 2001*.

The Manager/Advisor

Prior to listing, MARIL and MARL entered into advisory and management agreements (collectively, the “MQA Management Agreements”) respectively with MFA, a wholly owned subsidiary of Macquarie Group Limited (“MGL” or “Macquarie”).

The MQA Manager currently makes available employees (including senior executives) to discharge its obligations to the relevant MQA entity. These staff are employed by entities in the Macquarie Group and made available to MQA through formalised resourcing arrangements. Their remuneration is not an MQA expense as it is paid by Macquarie Group. Instead, MQA pays management fees to the MQA Manager (and therefore the Macquarie Group) for providing management and advisory services. These fees are an MQA expense and are therefore disclosed below along with MQA director fees. On 20 October 2017 it was announced that James Hooke would be appointed Chief Executive Officer (“CEO”) of MQA effective 1 February 2018 and Macquarie agreed that on an ongoing basis it would provide details of the remuneration paid to Mr Hooke by Macquarie in his capacity as MQA CEO. It is expected that the MQA CEO remuneration will be reported in next year’s Remuneration Report.

MQA’s relationship with Macquarie has provided MQA with:

- Access to geographically dispersed high calibre expertise, which is available when and where it is needed, as well as premises and associated on-costs
- Access to potentially accretive investment opportunities through Macquarie’s international platform
- The ability to leverage Macquarie’s strong relationships with third-party suppliers, professional advisors, governments and regulatory bodies; and
- Depth of knowledge of capital markets.

Set out below are details of the management and director fees paid by MQA together with disclosure detailing how staff of the MQA Manager are incentivised, how their interests are aligned with MQA and the benefits MQA derives from the arrangement.

Management fees

Under the terms of the MQA Management Agreements, the MQA Manager is entitled to base and performance fees for acting as manager and adviser to the stapled entities that comprise MQA, as is typical for vehicles of this nature.

MQA has an international portfolio of complex road assets and effective management requires geographically dispersed global expertise which the MQA Manager provides. Currently there are over 50 personnel directly contributing to the management service provided by Macquarie. These staff do not necessarily work full time for MQA and the number of Full Time Equivalent (FTE) staff can vary depending on MQA’s needs. This allows MQA to leverage off industry, technical and geography specialists in each location and the level of local presence and network has successfully helped to reduce political and regulatory risk at each asset, preserving and protecting value for MQA’s investors. Macquarie’s relationships with third-party suppliers, governments and regulatory bodies can also be utilised by MQA. The MQA Manager also adds value by providing MQA with potentially accretive investment opportunities through its international platform.

Base and performance fees are calculated in accordance with defined formulae under the MQA Management Agreements. The management fee structure is linked to MQA's market performance and, in the case of performance fees, ongoing MQA outperformance against a market benchmark. The management fees paid or payable by MQA to the MQA Manager for the financial year ended 31 December 2017 were:

- Base fee A$32.8 million
- Performance fee A$52.6 million (A$8.0 million + A$44.7 million)

All base fees for the year ended 31 December 2017 were paid in cash. The performance fee amount above comprises the first instalment of the June 2017 performance fee of A$23.9 million which is payable in three equal annual instalments of A$8.0 million each. Future instalments may become payable, subject to meeting ongoing outperformance criteria. Also included is the second instalment of the June 2016 fee of A$44.7 million.

As permitted under the terms of the MQA Management Agreements, the performance fee paid during the financial year ended 31 December 2017, being the first instalment of the 2017 performance fee and the second instalment of the 2016 performance fee was applied by the MQA Manager to a subscription for 8,941,792 new MQA securities. This reflected 1.6% of the number of shares on issue at that time.

The structure and level of the fee arrangements were fully disclosed to investors on fund inception and continue to be disclosed on the MQA website and in annual reports.

Investors originally invested and continue to invest with this knowledge. Any changes to the structure of the fee provisions which would have the effect of increasing the fees provided for under the MQA Management Agreements would need to be approved by MQA stapled securityholders. However, fee reductions do not require shareholder approval and can be discussed between the MQA Boards and the MQA Manager.

Base fees

After discussions with the MQA Boards, the MQA Manager notified MQA that commencing 1 October 2017 and for subsequent quarters until further notice, the base management fees payable would be reduced to a flat 0.85% per annum for all market capitalisations.

This is the third instance that the MQA Manager has reduced the base management fee rates payable by MQA following rate reductions in 2014 and 2016.

Market capitalisation

Market value	Original contract	Revised fee from 1 Jan 2014	Revised fee from 1 Jul 2016	Revised fee from 1 Oct 2017
Up to $1 billion	2.00% p.a.	1.75% p.a.	1.00% p.a.	0.85% p.a.
Between $1 billion and $3 billion	1.25% p.a.	1.00% p.a.	1.00% p.a.	0.85% p.a.
More than $3 billion	1.00% p.a.	1.00% p.a.	1.00% p.a.	0.85% p.a.

For the purposes of calculating the base fee, "Market Value" means the market capitalisation of MQA calculated on the basis of the average number of MQA securities on issue during the last 10 ASX trading days in the relevant calendar quarter multiplied by the volume weighted average price (VWAP) of all MQA securities traded on the ASX during those 10 trading days.

The quantum of the base management fee can increase or decrease as a result of any movement in both the number of MQA securities on issue 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 MQA's investments.

Remuneration Report (audited) CONTINUED

Performance fees

A performance fee is payable at 30 June each year in the event that the MQA accumulation index outperforms its benchmark, the S&P/ASX 300 Industrials Accumulation Index, in the year to that date having made up for any previous underperformance.

The performance fee is 15% of the dollar amount of the net outperformance for the period and is payable in three equal annual instalments. The first instalment is payable immediately. However the subsequent instalments are subject to further performance conditions. The second instalment is payable on the first anniversary of the calculation date, only if MQA's performance equals or exceeds that of the benchmark over the two-year period to that date. Similarly, the third instalment is payable on the second anniversary of the calculation date, only if MQA's performance equals or exceeds that of the benchmark over the three-year period to that date.

Where MQA underperforms the benchmark a fee deficit is created. Before any future performance fees can be earned, all accumulated deficits from prior periods of underperformance must be eliminated ensuring that any future performance fees are only paid as a result of sustained benchmark outperformance.

This requirement for sustained outperformance creates a strong alignment of interest between the MQA Manager and MQA securityholders.

Fees are apportioned between MARL and MARIL based on each entity's share of the value of MQA's net assets.

Oversight of fee payments

There is independent oversight in respect of the calculation and payment of management fees as follows:

The calculation and payment of management fees (both base and performance fees) are audited as part of the annual financial statement audit. The performance fee calculation is subject to review by MQA's auditors, PricewaterhouseCoopers, at the time the fee is calculated. The performance fee calculation is also checked for mathematical accuracy by a specialist firm. MQA's independent directors review the certification process prior to payment of the performance fee.

Reinvestment of fees

Under MQA's constituent documents and the MQA Management Agreements, the MQA Manager has the ability to request the application of base or performance fees payable to it be used to subscribe for new MQA securities. This subscription is subject to the approval of MQA's independent directors.

In this event, the issue price for the new MQA stapled securities is the VWAP of all MQA stapled securities traded on the ASX during the last 10 trading days of the relevant instalment period.

Expense reimbursement

The MQA Manager is also entitled to be reimbursed, out of the assets of MQA, for expenses incurred by it in relation to the proper performance of its duties.

This includes routine ongoing expenses such as the third-party costs of acquiring assets and managing them, as well as capital raising costs, registry, audit, insurance, compliance costs and other expenses as set out in the MQA Management Agreements.

This does not include MQA Manager staff costs, costs associated with their employment and premises.

Fees paid or payable by MQA group entities for services provided by other Macquarie entities are disclosed in the MQA financial statements and are subject to strict protocols.

Directors

Set out below are details of the remuneration paid to directors of MQA as well as the total paid for the financial year 2017. The level of fees is not related to the performance of MQA.

During 2016 an independent remuneration review was undertaken to benchmark to current market rates for comparable directorships in Australia and Bermuda. The boards of MARL and MARIL will continue to consider remuneration payable to directors from time to time. Remuneration for directors is approved by the boards and any increases are to be periodically benchmarked to market based on external advice. Under the MARL Constitution, aggregate MARL director fees are capped at A$1,000,000 and under the MARIL Bye-Laws, aggregate MARIL director fees are capped at US$500,000. Any increase to this cap requires shareholder approval.

None of the MARL or MARIL directors is entitled to MQA options or securities or to retirement benefits as part of his or her remuneration package. Remuneration is formalised in appointment letters. Upon termination of the appointment letters, directors are not entitled to any payments, other than directors' fees payable up until the date of termination. Termination is governed by the terms of the appointment letter and the constitutional documents of the entity.

	Board		ARC		RemCo		NomCo		
Macquarie Atlas Roads International Limited – Director fees	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member	Travel allowance
US$	110,000	70,000	15,000	7,500	7,500	3,750	–	2,500	5,000[1]
Australian NED A$	N/A	70,000	N/A	7,500	N/A	3,750	N/A	2,500	N/A

1 US$10,000 for Chairman of MARIL due to an additional annual trip to Australia.

	Board		ARC		RemCo		NomCo		
Macquarie Atlas Roads Limited – Director fees	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member	Travel allowance
A$	200,000	120,000	25,000	12,500	10,000	5,000	–	5,000	10,000

Additional adhoc committees are remunerated on a time-spent basis at a rate of A$2,500 per day for MARL and US$1,750 per day for MARIL. Committees set up specifically for the MQA internalisation are remunerated at a rate of A$5,000 per annum for MARL and US$2,500 per annum for MARIL (A$2,500 per annum for Australian NED). In addition a working group has been set up with fees ranging between US$5,000 and A$20,000 depending on level of involvement. These internalisation fees will continue in 2018.

	MARL director fees		MARIL director fees	
Macquarie Atlas Roads – Director fees paid[1]	2017	2016	2017	2016
Jeffrey Conyers	–	–	**US$122,500**	US$97,500
Marc de Cure[2]	**A$78,750**	A$141,250	–	–
Richard England	**A$195,741**	A$152,500	–	–
Debra Goodin[3]	**A$80,751**	–	–	–
James Keyes	–	–	**US$92,500**	US$72,500
Christopher Leslie[3]	–	–	**US$28,333**	–
John Roberts	**A$142,083**	A$132,500	–	–
Nora Scheinkestel	**A$228,438**	A$197,500	**A$86,250**	A$74,375
Derek Stapley	–	–	**US$102,438**	US$81,250

1 Includes adhoc committee and working group fees in 2017 for all directors except John Roberts and Chris Leslie, totalling A$100k.
2 Resigned 30 June 2017.
3 Appointed 1 September 2017.

Except for reimbursements, no payments other than those disclosed in the table above were made to any directors during their period of service. There were no loans to directors.

MARL and MARIL directors are required to acquire and maintain a minimum personal holding of MQA securities which equates to one year of their director fees. They have three years in which to accumulate their minimum holding, from the later of July 2017 (when the policy was implemented) or from the date of their appointment.

Refer to details on pages 35 and 36 as it relates to directors' current individual interests in MQA stapled securities.

Remuneration Report (audited) CONTINUED

Executives

The remuneration of executives that are involved in the management of MQA (including the CEO and CFO of MQA) is not currently disclosed because these executives are employed by Macquarie Group and not by MQA. On 20 October 2017 it was announced that James Hooke would be appointed CEO of MQA effective 1 February 2018 and Macquarie agreed that on an ongoing basis it would provide details of the remuneration paid to Mr Hooke by Macquarie in his capacity as MQA CEO. It is expected that the MQA CEO remuneration will be reported in next year's Remuneration Report. There were no amounts paid or payable by MQA to the previous CEO, Peter Trent.

The remuneration of these executives is determined and paid by the Macquarie Group and is not recharged to MQA. The Boards and Remuneration Committees of MARL and MARIL do not determine the remuneration of MQA management.

Macquarie Group's approach to employee remuneration, which is detailed in the Macquarie Group Annual Report, produces a strong alignment of interest between MQA executives and MQA investors.

As detailed in that report, Macquarie Group's remuneration system ensures that a significant amount of remuneration is at risk and solely dependent on performance. The remuneration package of all Macquarie Group executives consists of a base salary and an annual profit share allocation.

The base salary is reviewed annually and the profit share allocation, which is not guaranteed, is based on performance. Performance assessment of Macquarie Group employees takes place half-yearly. The MQA Boards provide feedback in respect of performance of senior MQA management, and can request that they be replaced if not performing satisfactorily. The MQA board also set and review annual objectives for the CEO to deliver with his management team.

The profit share allocations to executives provide substantial incentives for superior performance but low or no participation for less satisfactory outcomes. Profit share allocations are therefore highly variable and can comprise a high proportion of total remuneration in the case of superior performance. The level of profit share received by members of the MQA management team is driven predominantly by their individual contribution to the performance of MQA, taking into account the following elements:

- MQA's overall performance as a listed entity
- Management and leadership of MQA, including upholding MQA's Code of Conduct and the management of MQA's investments
- Effective risk management and capital management
- Maintenance of MQA's reputation.

There is no formulaic approach to determining MQA management's profit share allocation. It is discretionary and takes into account factors outlined above as well as input from the MQA Boards. Deferral and restriction arrangements, including notional investment in Macquarie managed funds, apply to a portion of allocated profit share to encourage a long-term perspective and commitment from Macquarie employees.

Service agreements

Remuneration for the directors is formalised in appointment letters. Upon termination of the appointment letters, directors are not entitled to any payments, other than directors' fees payable up until the date of termination. Termination is governed by the terms of the appointment letter and the constitution of MARL.

Loans to directors

There were no loans to directors.

Share options granted to directors

No options over unissued ordinary securities of MQA exist or were granted to directors at 31 December 2017.

Directors' holdings of stapled securities

Refer to the Information on Directors on page 35 and 36 as it relates to as it relates to directors' holdings in MQA stapled securities.