
Extracts from the Notice of General Meeting and accompanying Explanatory Memorandum dated 1 November 2013 and publicly released on 7 November 2013

3 IMPACT ON MACQUARIE

3.1 Effect on financial position

The historical pro forma consolidated statement of financial position presented below has been prepared to illustrate the effect of the proposed Distribution and Consolidation on Macquarie Group on a pro forma basis as at 30 September 2013.

It has been derived from the consolidated statement of financial position of Macquarie Group as at 30 September 2013 and reflects the position as if the Distribution and the Consolidation were completed on that date. As a result, the actual financial impact of the Distribution and the Consolidation will differ from the pro forma information as it is not expected that the Distribution will take place until 13 January 2014. In addition, it is based on an assumed closing price of SYD Securities on the Trading Day prior to the Distribution Date, which is subject to change.

The historical pro forma consolidated statement of financial position has been prepared based on the accounting policies disclosed in the financial report of Macquarie Group for the half-year ended 30 September 2013 and by applying the following pro forma assumptions:

- 339.9m Macquarie Shares on issue;
- SYD Securities closing price on ASX of \$4.17 on the Trading Day prior to the Distribution Date; and
- Macquarie Group recognises a gain on distribution in its income statement on the disposal of SYD Securities of \$377 million (based on the assumed Closing Price of SYD Securities of \$4.17).

Macquarie Group Limited and its subsidiaries
Statement of financial position
as at 30 September 2013.

	Reported Sep- 13 A\$m	Distribution A\$m	Consolidation A\$m	Pro forma Sep-13 A\$m
Assets				
Receivables from financial institutions	20,001	(1)		20,000
Trading portfolio assets	22,489			22,489
Derivative assets	14,647			14,647
Investment securities available for sale	16,578	(1,417)		15,161
Other assets	12,335			12,335
Loan assets held at amortised cost	54,476			54,476
Other financial assets at fair value through profit or loss	3,116			3,116
Property, plant and equipment	6,175			6,175
Interests in associates and joint ventures accounted for using the equity method	2,497			2,497
Intangible assets	1,276			1,276
Deferred tax assets	1,010	33		1,043
Total assets	154,600	(1,385)	-	153,215
Liabilities				
Trading portfolio liabilities	3,485			3,485
Derivative liabilities	14,149			14,149
Deposits	42,694			42,694
Other liabilities	12,638	104		12,742
Payables to financial institutions	19,625			19,625
Other financial liabilities at fair value through profit or loss	1,205			1,205
Debt issued at amortised cost	43,755			43,755
Provisions	225			225
Deferred tax liabilities	667			667
Total liabilities excluding loan capital	138,443	104	-	138,547
Loan capital				
Subordinated debt at amortised cost	3,438			3,438
Total loan capital	3,438	-	-	3,438
Total liabilities	141,881	104	-	141,985
Net assets	12,719	(1,489)	-	11,230
Equity				
Contributed equity	5,893	(968)		4,925
Reserves	726	(256)		470
Retained earnings	5,610	(265)		5,345
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	12,229	(1,489)	-	10,740
Non-controlling interests	490	-	-	490
Total equity	12,719	(1,489)	-	11,230

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3.3 Impact on capital structure and regulatory capital

The proposed Consolidation will reduce the number of Macquarie Shares on issue from approximately 339.9 million shares to approximately 320.8 million shares.

As the Consolidation applies equally to all Macquarie Shareholders, individual shareholdings will be reduced in the same ratio as the total number of Macquarie Shares (subject to the rounding of fractions). As a consequence, the Consolidation will have no material impact on the percentage interest of each individual Macquarie Shareholder.

As at 30 September 2013, the Macquarie Group's reported regulatory capital surplus was approximately \$3.1 billion on an APRA Basel III basis⁽¹⁾. The Distribution is expected to reduce the regulatory capital surplus by approximately \$0.6 billion, once the release of regulatory capital held against the SYD investment and the profit recognised on the Distribution are considered. In addition, a number of capital initiatives have been completed or are currently in progress and expected to be completed before the Distribution is made. After taking these capital initiatives into account, the expected overall reduction in capital surplus⁽¹⁾ is at most \$0.25 billion.

Macquarie has previously announced an on-market share buyback \$0.5 billion of which \$0.25 billion has been completed.

The estimated reduction in regulatory capital surplus of \$0.25 billion is consistent with the outstanding balance of the ordinary share buyback. With the implementation of this proposal, that remaining buyback will be withdrawn.

The final impact on the Macquarie Group regulatory capital surplus will be subject to movements in market prices – in particular of SYD Securities. In addition, Macquarie's strategy is to continually assess, and maintain the flexibility to pursue strategic merger and acquisition opportunities and other corporate transactions as they arise across its various businesses. Any particular opportunity or transaction that Macquarie determines to pursue may also impact Macquarie's regulatory capital position.

Macquarie has received the necessary regulatory approvals to undertake the Distribution.

⁽¹⁾ Capital Surplus calculated using a capital requirement of 7% of risk weighted assets.

3.5 Impact on Macquarie employee equity plans

Under the Macquarie Group Employee Retained Equity Plan (“MEREP”), Macquarie has granted various awards to certain employees, including Restricted Share Units (“RSUs”), Deferred Share Units (“DSUs”) and, to the most senior executives only (the Executive Committee Members), Performance Share Units (“PSUs”).

The number of RSUs will be consolidated on the same basis as all other Macquarie Shares under the Consolidation and the number of DSUs and PSUs will be adjusted in the same ratio as the Macquarie Shares under the Consolidation. In respect of the Distribution, RSU holders will receive SYD Securities in respect of the RSUs allocated to them. DSU holders will not receive any SYD Securities but will receive a cash amount equivalent to the Distribution in respect of each DSU, less any tax that is required to be withheld. PSU holders are not entitled to receive SYD Securities nor any equivalent payment.

The Non-Executive Directors have considered the impact of the transaction on MEREP. The distribution of SYD Securities will occur in the same manner as for other Macquarie Shareholders in respect of RSUs and as otherwise described above in respect of DSUs. Because of the structure of the MEREP trust and the contractual retention arrangements with staff, it is not possible to retain the SYD Securities or impose similar retention arrangements on SYD Securities as those which exist with MEREP. Therefore, the Non-Executive Directors intend to exercise discretion to increase the retention rate and to amend the vesting and release period for FY2014 profit share to reflect the impact of the Proposal on MEREP. This will apply to Executive Key Management Personnel and other senior executives.

Options held by staff under the Macquarie Group Employee Share Option Plan will be consolidated in the same ratio as Macquarie Shares under the Consolidation. Consistent with the ASX Listing Rules, the exercise price of the options will be amended in inverse proportion to the Consolidation ratio on or about 20 December 2013, being the effective date of the Consolidation, then reduced by the amount of the Capital Return per Macquarie Share on the Distribution Date.

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6.4 Information on the Constitution Amendment

The Constitution Amendment Resolution, if passed, will constitute the approval of Macquarie's Shareholders under section 136(2) of the Corporations Act to the modification of the Constitution.

The existing Constitution allows for the declaration of in specie dividends. The purpose of the Constitution Amendment Resolution is to extend and expand the ancillary powers that are available to implement in specie dividends and to address reductions of capital. This will facilitate the Distribution and provide greater flexibility for the payment of distributions in the future. It is proposed to replace existing articles 15.6 and 15.7 of the Constitution.

In summary, the revised articles 15.6 and 15.7 provide:

- that the Directors may resolve that a distribution by reduction of capital, buy-back or other distribution can be satisfied by an in specie distribution of shares, debentures or other securities in Macquarie or in another body corporate or trust;
- in relation to any decision to pay a dividend, or to return capital by a reduction of capital, a buy-back or otherwise, the Directors may:
 - settle any difficulty that arises as they think expedient including withholding assets, cash, shares, debentures or other securities required to make a payment to a government or taxing authority or aggregating parcels of shares where shareholdings have been split or aggregated to obtain a benefit from rounding of fractions of shares;
 - fix the value for distribution of specific assets;
 - pay cash or issue shares, debentures or other securities in order to adjust rights of members;
 - vest assets in a trustee on trust; or
 - authorise any person to make an agreement with Macquarie on behalf of members for the purpose of a dividend or return of capital; or
- that the Directors may make a cash payment to a member instead of a distribution of assets, or allocate the assets to a trustee for sale, if the distribution would be illegal or unlawful, would give rise to a parcel that is not a marketable parcel or the Directors in their discretion determine that the distribution would be impractical, or if the member so agrees.

The Directors recommend that the proposed Constitution Amendment be approved. The Constitution Amendment Resolution will be considered by Macquarie Shareholders at the General Meeting as the first item of business. In accordance with section 136(2) of the Corporations Act, the Constitution Amendment Resolution must be approved by a special resolution requiring 75 per cent of the votes cast by or on behalf of Macquarie Shareholders on the resolution, in order to be passed.

GLOSSARY

APRA means the Australian Prudential Regulation Authority.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange as appropriate.

Capital Return means the equal capital reduction per Macquarie Share equal to 69 per cent of the Closing Price, payment of that capital reduction and the Special Dividend to be satisfied by the Distribution.

Closing Price means the closing price of SYD Securities on ASX on the Trading Day prior to the Distribution Date.

Consolidation means the consolidation of Macquarie Shares on a 0.9438 for one basis.

Constitution means the constitution of Macquarie.

Constitution Amendment means the amendment to the Constitution.

Constitution Amendment Resolution means the first resolution in the Notice of General Meeting.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the Voting Directors of Macquarie as defined in the Constitution.

Distribution means the distribution of SYD Securities to Macquarie Shareholders on a one for one basis implemented through the Capital Return and the Special Dividend.

Distribution Date means 13 January 2014 or such other date the Directors determine for the Distribution to be made.

Executive Key Management Personnel means the members of the Executive Committee of Macquarie.

Explanatory Memorandum means the explanatory statement in respect of the General Meeting filed with the ASX on 7 November 2013.

General Meeting means the general meeting of Macquarie Shareholders to be convened on 12 December 2013 (subject to any adjournment) to consider the Proposal.

Listing Rules means the ASX Listing Rules.

Macquarie means Macquarie Group Limited (ACN 122 169 279).

Macquarie Group means Macquarie and its controlled entities.

Macquarie Shares means ordinary shares in the issued capital of Macquarie.

Macquarie Shareholders means the holders of Macquarie Shares.

MEREP means Macquarie Group Employee Retained Equity Plan.

Notice of General Meeting means the notice of general meeting filed with the ASX on 7 November 2013.

Proposal means the Constitution Amendment, the Distribution and the Consolidation.

SAT1 means Sydney Airport Trust 1 (ARSN 099 597 921).

SAT2 means Sydney Airport Trust 2 (ARSN 099 597 896).

Special Dividend means the dividend per Macquarie Share of an amount equal to the Closing Price less the amount of the Capital Return per Macquarie Share, payment of that dividend and the Capital Return to be satisfied by the Distribution.

SYD means ASX listed Sydney Airport, which currently comprises the stapled units of SAT1 and SAT2.

SYD Securities means the fully paid stapled securities of SAT1 and SAT2; or, any resulting stapled securities of SYD.

Trading Day means a day which is a trading day within the meaning of the ASX Listing Rules.